UNITED STATES MINT

www.usmint.gov

2003

UNITED STATES MINT

ANNUAL REPORT

COINS AS ICONS OF HISTORY

United States coins have been silent witness to the American experience. Our coins went with Lewis and Clark as they explored the Louisiana Purchase to the Pacific Ocean…Our coins were targeted by train-robbers and stagecoach bandits throughout America's westward expansion… Our coins have gone everywhere that Mankind has gone -- from the bottom of the ocean to beyond the earth's atmosphere with the Space Shuttle.

Wherever United States coins travel, they serve as reminders of the values that all Americans share. The words and symbols that define us as Americans have a permanent place in our coins: "Liberty"… "In God We Trust"… "E Pluribus Unum"…The profiles of our country's greatest leaders… America's freedom embodied in the bald eagle.

Our coins are small declarations of our beliefs. They showcase how we see ourselves and our sense of sovereign identity. And they serve as ambassadors of American values and ideals.

COINS AS ICONS OF DEMOCRACY

During our nation's early years, the founding fathers sometimes became directly involved in coin production. For example, George Washington contributed some of his own silver to the manufacture in July 1792 of about $100 worth of the half dime, the first coin struck by the federal government.

Today, the public frequently plays a pivotal role in designing coins. For example, the image of the Pemaquid Point lighthouse that appears on the Maine State Quarter was chosen by popular vote, with over 100,000 Maine residents voting over the Internet. This coin was released on June 2, 2003.

2003

UNITED STATES MINT
ANNUAL REPORT

The Mission of the United States Mint is to manufacture the highest quality circulating, numismatic, and bullion coins at the lowest possible cost and to deliver them in a timely manner . . . to expand our markets through exceptional customer service, product development, and innovative marketing . . . to sell numismatic and bullion products at a reasonable price and profit . . . and to provide security over assets entrusted to us.

TEAM VISION

The United States Mint will:
Provide value to the American people;
Ensure integrity in our commitments and communications;
Achieve world-class performance.

THE UNITED STATES MINT IS UNIQUE

The Mint makes money in every sense of the word.
In FY 2003, we:

- *Contributed $600 million to the United States Treasury General Fund.*
- *Produced about 11.4 billion circulating and numismatic coins.*
- *Were the world's largest mint in terms of production and revenues.*

The Mint is one of the few federal agencies that produces and sells consumer products.

The Mint's customer service is the best in the federal government, and is on par with the customer service delivered by the top ten private sector companies, according to the American Customer Satisfaction Index.

The Mint is the #1 seller of gold, silver and platinum bullion coins in the world.

The Mint Police guards approximately $95.2 billion (market value at end of FY 2003) worth of the nation's gold and silver reserves. The Mint's Bullion Depository in Fort Knox, Kentucky sets the standard for high security operations by inspiring the expression "as secure as Fort Knox."

THE UNITED STATES MINT FACILITIES

The United States Mint has six facilities:

1. *Headquarters in Washington, D.C. where Mint-wide policies are developed, manufacturing operations and marketing are managed, and administrative and customer service functions are conducted*

2. *The Denver facility in Colorado, where circulating coins and uncirculated coins are manufactured; tours of this facility are coordinated through Congressional offices*

3. *The Philadelphia facility in Pennsylvania, where coins and medals are engraved, and circulating coins, uncirculated sets, commemorative coins and medals are manufactured; tours of this facility are coordinated through Congressional offices*

4. *The San Francisco facility in California, where clad and silver proof sets are manufactured*

5. *The West Point facility in New York, where commemorative coins and the entire family of American Eagle proof and uncirculated coins in gold, silver, and platinum are manufactured*

6. *The United States Bullion Depository in Fort Knox, Kentucky, where U.S. gold reserves are stored*

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Henrietta Holsman Fore
Director, United States Mint

Dear Collectors, Customers and Colleagues:

We want to transform the United States Mint – which is the world's largest mint – into the world's safest, most efficient, and most technologically advanced mint. We also want to produce the world's best numismatic products. To achieve these goals, we are completely revamping the way that coins are designed, produced and distributed. We are also making important investments in our people and equipment; our Mints are now cleaner, brighter and better places to work than ever before.

BUSINESS-LIKE GOVERNMENT

While we are proud of our accomplishments, the United States Mint must overcome a significant challenge: the continuing decline in demand for circulating coinage. Accordingly, we continue to reduce costs, eliminate non-value added activities, and streamline our operations.

Our pride of ownership shines through all of our work. The United States Mint's manufacturing and customer service achievements for Fiscal Year (FY) 2003 include:

- Producing about 11.4 billion coins for circulation and collectors.
- Contributing $600 million to the United States Treasury General Fund.
- Ranking as the #1 federal agency and among the top ten private sector companies on the American Customer Satisfaction Index – an unprecedented achievement for a federal agency.
- Selling almost $100 million worth of coins and coin-related products over the Internet.
- Serving as the #1 seller of gold, silver, and platinum bullion coins in the world, with the American Eagle being the #1 selling bullion coin.
- Launching state commemorative quarters for Mississippi, Illinois, Alabama, Maine and Missouri, and attracting a total of about 11,000 attendees to launch celebrations.
- Slashing our Lost Time Accident (LTA) rate to 1.48 per 200,000 work hours – down by 35 percent from FY 2002.
- Reducing our FY 2003 financial plan by $42.4 million in response to decreased demand for circulating coins.

PRODUCT QUALITY

This fiscal year, we significantly improved the quality of our products. In addition, we continued to improve our supply chain management systems and coin inventory management systems to make them leaner, faster and more efficient. This effort was furthered by our recent roll-out of information technology (IT) resources. These resources are improving projections of coin demand, smoothing costly swings in coin production volume, and facilitating cost-cutting, around-the-clock communications with our key raw materials suppliers and the Federal Reserve.

EDUCATION

The United States Mint is opening up new channels of communication with the public. These channels include our award-winning advertising program and business

forums for collectors. In addition, we are innovating new methods to recruit young coin collectors, who are reenergizing the coin-collecting community. For example, we posted on our website free lesson plans for parents and teachers of K through 6th graders, and thereby triggered a cyber stampede involving over 770,000 downloads from the site.

NEW PRODUCTS

We are continually expanding our dynamic product offerings. During FY 2003, we issued an innovative, frosted bronze medal that, as part of our Presidential Medal Series, honors President George W. Bush. This fiscal year, the United States Mint also introduced the National Wildlife Refuge System Centennial Medal Series, which sold out in record-setting time. These silver medals are the first products to bear a new laser frosting developed by the United States Mint. In addition, our first-of-its-kind partnership with the United States Postal Service produced several new products that package together quarters and stamps, two of the world's most popular types of collectable products. The appeal of these products helped attract about 200,000 new customers to the United States Mint during FY 2003.

An ongoing renaissance in coin design gained renewed momentum from the Congressional charge to redesign the nickel in honor of the bicentennial of the Louisiana Purchase and the Lewis and Clark expedition. These design changes will be the first changes to the nickel since 1938. Over the last two years, thousands of coin collectors and dealers have expressed to me enthusiasm for the national coin redesign initiative; they regard it as an historic expression of our national identity, values and pride.

COIN DESIGN

Reflecting our unwavering passion for outstanding artistry, the United States Mint received in FY 2003 two Coin of the Year Awards, which are among the most prestigious awards for coin design: the Rhode Island State Quarter, which was produced in 2001, won as the "Best Trade Coin" and the American Buffalo Commemorative Coin, which was produced and sold in 2001, won as the "Most Popular Coin." During FY 2003, we released the American Eagle platinum coin – Patriotic Vigilance. We believe that Patriotic Vigilance, which is the first coin to showcase together the bald eagle and the American flag, is among the most evocative coins ever produced by the United States Mint.

To further enrich and invigorate coin designs, we established a new Artistic Infusion Program during FY 2003. This precedent-setting program will create a pool of 40 accomplished artists who will submit new designs for selected coins and medals. Experts in graphic design, sculpture, engraving and other visual arts, and artists participating in the Artistic Infusion Program will represent the diverse backgrounds and interests of the public.

Not confined to the United States Mint, the spirit of change is sweeping through mints all over the world as they confront declines in coin demand. As Vice President

INTERNATIONAL

The United States Mint will host the international XXIII MDC in San Francisco, California from March 18 to 23, 2004. Immediately after this event, the United States Mint will assume the MDC Presidency.

of the international Mint Directors Conference (MDC), I am encouraging our international membership to respond to these declines by adopting management and production efficiencies and good governance practices. We are also discussing strategies for expanding world coin markets. Reflecting such strategies, the MDC is now, for the first time, holding international marketing forums in addition to manufacturing forums.

SECURITY

The United States Mint is confronting the extreme challenges of the post-September 11th era by bolstering the Mint Police's recruitment program, training officers in terrorism prevention and terrorism defense techniques, enhancing our IT security systems, sharing intelligence with other security agencies and refining comprehensive contingency plans.

Our people are our most important resource. We are striving to build a culture based upon performance and teamwork. We are committed to creating a model workplace where all of our colleagues are treated with respect and dignity. During FY 2003, we invested almost $3 million in training.

OUTLOOK

All of our work reflects the United States Mint values of accountability, leadership, trust/respect/integrity, teamwork and communication. These values were reinforced by this year's release of the *United States Mint Strategic Plan 2002-2007 One Team. One Vision.*

From humble beginnings in 1792, the United States Mint has grown into one of the leading manufacturing organizations of the twenty-first century. With a focused, business-minded approach, we will continue to contribute to America's rich history, produce the finest coins, provide first-rate customer service and educational products, and deliver value to the American people.

OPERATIONAL OVERVIEW

MANUFACTURING

At the heart of the United States Mint's (Mint) operations are the activities of the Office of Manufacturing, which produced 11.4 billion circulating coins and 20.2 million numismatic coins during FY 2003. Also during FY 2003, Manufacturing improved safety, energy conservation, environmental compliance, quality and coin destruction capabilities; streamlined coin inventory management and supply chain management; reduced cycle time; produced medals and sold American Eagle Bullion coins.

CIRCULATING COINAGE

FISCAL YEAR 2003 CIRCULATING COIN PRODUCTION (PIECES IN MILLIONS)

	PENNY	NICKEL	DIME	QUARTER	HALF DOLLAR	DOLLAR	TOTAL
Philadelphia	3,038.4	385.2	944.0	1,224.6	5.6	3.5	5,601.3
Denver	3,257.6	328.3	863.5	1,325.6	5.0	3.1	5,783.1
Total	6,296.0	713.5	1,807.5	2,550.2	10.6	6.6	11,384.4

Because the United States' economy remained sluggish during FY 2003, coin production declined from a total of 14.9 billion circulating coins in FY 2002 to 11.4 billion circulating coins in FY 2003. This drop reflects declines in the production of all coin denominations.

SAFETY

The Mint is committed to reducing its Lost Time Accident (LTA) rate to zero. The Mint is steadily approaching this goal; its annual LTA rate per 200,000 work hours has generally trended downwards since the mid 1990s.

Continuing this downward trend, the Mint's LTA rate for FY 2003 was 1.48 – down by 35 percent from FY 2002, 64 percent from FY 2001 and 71 percent from FY 2000. In addition, the Mint achieved an LTA rate of zero for two (nonconsecutive) months of FY 2003. These were the first months that the Mint remained entirely LTA-free during the six years for which detailed monthly records are available.

During FY 2003, the Mint worked to improve safety by:

- Forming and chartering a Safety Steering Committee comprised of senior managers and union officials.
- Sponsoring the participation of managers and safety professionals in a workshop held by Dupont Safety Resources, a consulting firm that specializes in helping organizations improve their safety and health records while improving their business performance.
- Awarding a contract for implementing a unified, Mint-wide safety program. This program includes assessing and benchmarking safety and health practices at Mint facilities and identifying opportunities for improving practices.

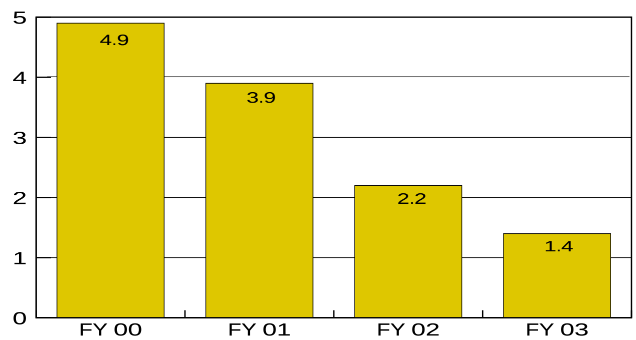
An Award-Winning Energy Conservation Program

The United States Mint's energy conservation program is among the most effective of those managed by the Department of Treasury's nine bureaus. During the last ten years, the United States Mint has won three Federal Energy Management Awards from the United States Department of Energy. No other Treasury bureau won this award as many times during this period.

- Developing action plans to address these opportunities, and implementing these action plans.

- Improving employee awareness about safety issues by distributing educational materials and holding supervisor safety meetings.

U.S. MINT LOST TIME ACCIDENT RATE



ENERGY CONSERVATION

The Mint is implementing various energy conservation strategies that include educating employees about the importance of energy conservation, implementing innovative employee work schedules, modifying equipment, and installing energy-efficient windows. Through these initiatives, the Mint is conserving 2,913,000 KWH of energy and 3,227,000 gallons of water per year at its five field facilities. By achieving these resource savings, as well as by renegotiating some of its energy contracts, the Mint is saving more than $125,000 annually.

The Mint's achievements for FY 2003 also include developing a contract with Public Service of Colorado to provide the Denver Mint with 1,500 MWH of wind energy, which will account for 10 percent of the Denver Mint's annual energy needs. This contract will help the Mint exceed a voluntary goal that federal agencies obtain at least 2.5 percent of their energy from renewable resources. This voluntary goal was suggested by Executive Order 13123 "Greening The Government Through Efficient Energy Management."

ENVIRONMENT

The Mint is committed to complying with all Executive Orders addressing environmental issues and all local, state, and federal environmental regulations. During FY 2003, Manufacturing gave special attention to complying with Executive Order 13148 (EO 13148) "Greening the Government Through Leadership in Environmental Management." EO 13148 includes substantive program requirements and deadlines that are designed to help federal agencies integrate environmental management and accountability into their day-to-day decision-making and long-term planning. During FY 2003, the Mint remained on schedule to satisfy all requirements of EO 13148 by conducting the following activities:

- Continued implementing a Mint-wide Environmental Management System (EMS) according to guidelines provided in the Mint's EMS Reference Manual, which was completed in FY 2002. EMS implementation is expected to be completed by Spring 2004.

- Provided EMS training to all essential EMS managers and supervisors.

- Conducted monthly environmental self-audits using facility-specific checklists that are designed to help each Mint facility achieve sustained compliance with all relevant environmental regulations. These checklists were developed earlier but fully tested in FY 2002. During FY 2003, all Mint facilities achieved 100 percent environmental compliance with these self-inspection checklists.

- Continued planning for environmental assessments to be conducted by an outside consulting company at each Mint facility in FY 2004.

- Continued implementing an Environmental Management Information System (EMIS) that will use state-of-the-art information technology to centralize and manage all environmental information. EMIS implementation is expected to be completed during FY 2004.

- Continued preparing all of the Mint's manufacturing facilities to qualify for certification by the International Organization for Standardization (ISO) for International Standard 14001 in FY 2004. International Standard 14001 is comprised of voluntary standards that address the environmental performance of manufacturing organizations.

QUALITY

During FY 2003, Manufacturing improved the Mint's Quality Management System (QMS) by:

- Approving a Manufacturing Quality Systems Manual that provides guidelines for implementing the Mint's QMS.

- Designing and implementing a Supplier Quality Audit Program according to guidelines provided in the Mint's Manufacturing Quality Systems Manual. This program is designed to ensure that the Mint obtains production materials, such as strip, blanks, packaging and die steel, from suppliers that provide high quality materials. This program is based upon a scorecard system that evaluates suppliers on various attributes, such as their ratings on product quality audits, timeliness of deliveries and responsiveness to needed corrections.

- Implementing a pilot test at the West Point Mint according to guidelines provided in the Mint's Manufacturing Quality Systems Manual. This pilot test is designed to evaluate the benefits of meeting the requirements of the new ISO 9001:2000 standard.

#1 In Bullion Sales

The American Eagle Bullion coin is the top-selling bullion coin in the United States and in the world. During FY 2003, the United States Mint sold approximately 466,000 Fine Troy Ounces (FTOs) of American Eagle Bullion gold coins, 8.7 million FTOs of American Eagle Bullion silver coins, and 24,000 Gross Troy Ounces of American Eagle Bullion platinum coins.

Then: A Slow-Process

Using the United States Mint's first coining press, which is pictured here, it took three years to produce the nation's first one million coins.

Now: A High-Speed, High-Tech Process

Today, the Denver and Philadelphia Mints together can produce as many as 28 billion coins per year. Because the equipment and techniques used in coin production have been standardized, imperfect coins are rare and becoming rarer every year.

- Developing a Manufacturing Quality Index (MQI) that will provide a uniform, quantitative method for evaluating quality that will complement quality control methods currently used at Mint facilities.

DESTRUCTION OF ERROR COINS

During FY 2003, the Philadelphia Mint and the Denver Mint acquired new equipment to destroy damaged coins and blanks that do not meet production specifications and non-current coins that have been removed from circulation. This new coin-destruction equipment uses rolling mill technology to distort, mutilate, and thereby destroy the value of coins and blanks. This technology is enabling the Philadelphia Mint and Denver Mint to destroy condemned coins and blanks safer and faster than was possible via previous procedures, which involved accumulating large volumes of out-of-specification material for return to metal suppliers. It is also enabling these facilities to avoid the high storage and security costs associated with maintaining and witnessing the melting of such accumulations.

COIN INVENTORY MANAGEMENT

During FY 2003, the Mint partnered with the Federal Reserve to improve coin production planning and inventory management. As part of this effort, the Mint supported the Federal Reserve's implementation of an Inventory Management and Forecasting (IMF) tool at each of its 37 locations. This IMF tool is enabling the Federal Reserve to better align its coin orders with true coin demand and to reduce the high variability in its coin orders. It is thereby helping the Mint to smooth costly swings in coin production. During FY 2003, the Mint also helped the Federal Reserve reduce and balance its coin orders by transferring previously circulated coins from Reserve Banks that have excess supplies to nearby Reserve Banks that need additional coins.

SUPPLY CHAIN MANAGEMENT

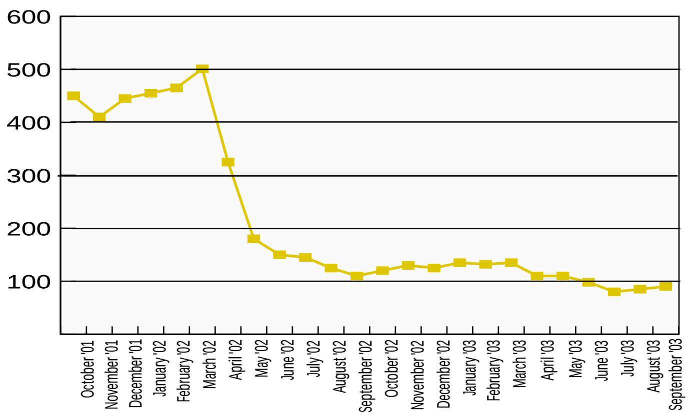
During FY 2003, the Mint worked to incorporate best-in-business practices into every link of its supply chain – from obtaining raw materials to distributing coins. As part of this effort, the Mint is creating a new Extranet Coin Shipping application to convey information about shipping schedules of raw materials and supplier inventories between the Mint and its key suppliers.

In addition, the Mint's plants are continuing to implement Total Productive Manufacturing (TPM) strategies, which foster rapid, continuous improvement of manufacturing processes through employee involvement, employee empowerment, and closed-loop measurements of results. During FY 2003, the Mint improved TPM strategies by educating representatives of our suppliers of raw materials and the Federal Reserve on the principles of lean supply chain management.

CYCLE TIME

Cycle time is a measure of the average amount of time it takes to process raw materials into finished goods. The Mint is minimizing its cycle time and reducing costs by eliminating non-value added steps from production processes. The Mint reduced cycle time from 112 days in September 2002 to 73 days in September 2003.

CIRCULATING MANUFACTURING CYCLE TIME



MEDALS

National and other medals honor outstanding persons, events, and sites of special meaning to the American people. During FY 2003, the following medals were issued:

President George W. Bush Medal: The Mint's Presidential Medals date back to the earliest days of the Republic. The President George W. Bush medal was presented to President George W. Bush on July 31, 2003. The obverse features images of President Bush and the American flag along with the inscription, "GEORGE W. BUSH." The reverse features images of the south portico of the White House and the Presidential Seal, along with the inscription, "WE WILL NOT TIRE, WE WILL NOT FALTER, AND WE WILL NOT FAIL." The President George W. Bush medal was produced through a process that created a frosted finish.

2003 National Wildlife Refuge System Centennial Medal Series: This series offers both silver and bronze medals honoring President Theodore Roosevelt, founder of the National Wildlife Refuge System. A portion of the proceeds from sales of these medals will benefit the National Wildlife Refuge System. The National Wildlife Refuge System Centennial Medals, which are the Mint's first products to bear laser frosting, were released through the Mint's subscription program in June 2003. This is the first silver commemorative medal series ever offered by the Mint.

Frosting Techniques

Frosted Finish: *The Mint used aluminum oxide in the President George W. Bush Medal, as opposed to the glass bead media used in other medal dies.*

Laser Frosting: *The Mint recently adopted a process to produce a "frosting" texture on our proof coins. The method employs a computer-controlled laser that imprints about 3,000 craters per second on our dies by vaporizing the steel and producing a highly polished field on the proof die, which imparts a mirror-like image on the medal. Conventionally-produced dies rely on a grit-blasting process that yields a more random finish and requires higher magnification to observe the features.*

SALES AND MARKETING

The Mint's Office of Sales and Marketing (SAM) provides our primary interface with customers and the numismatic community. During FY 2003, SAM strengthened this interface by improving customer service, launching an advertising campaign, expanding our education initiatives, and helping to plan the Mint Directors Conference (MDC). In addition, SAM contributed to a renaissance in coin design by establishing an Artistic Infusion Program and participating in redesigning the nickel. This year, SAM also sold popular proof coins, partnered with other federal agencies to expand our product offerings, and launched a new commemorative coin.

CUSTOMER SERVICE

Survey Results: The Mint outranked all other federal agencies on the American Customer Satisfaction Index (ACSI) for calendar year 2002. The ACSI is an annual survey conducted by the University of Michigan. The year 2002 marks the seventh consecutive year that the Mint has ranked among the top scorers on the ACSI.

The Mint scored 84 on a 1-to-100 scale on the ACSI for 2002. This score places the Mint among the top 10 private sector companies for the second year in a row – an unprecedented achievement for a federal agency.

Customer Service: During FY 2003, the Mint sold $235 million worth of coins (this figure excludes sales of American Eagle Bullion coins) and coin related products via the Internet, hard copy mail, phone and other methods. This year's customer service successes include reducing the Customer Service Hotline's abandon rate – the percentage of callers who hang up before reaching an operator – to 3 percent.

#1 In Customer Service in the Federal Government

How did the United States Mint climb to the top of the American Customer Satisfaction Index? Part of the secret of our success is that we continuously solicit feedback from customers over our Website, and quickly incorporate this feedback into our business practices. Our success also reflects our:

- *High-quality products, which consistently meet or exceed customer expectations.*
- *Fast, hassle-free service via telephone, the Internet and hard-copy mail.*
- *State-of-the-art e-commerce systems that support our user-friendly website and on-line catalogue.*
- *Subscription service that eliminates the need for repetitive ordering.*
- *Strict guidelines for maintaining the security of customers' identity and financial information.*

EDUCATION

During FY 2003, SAM extended the reach, improved the quality and reduced the costs of its educational projects by consolidating them under its Mint Education Initiative (MEI). Current MEI projects include:

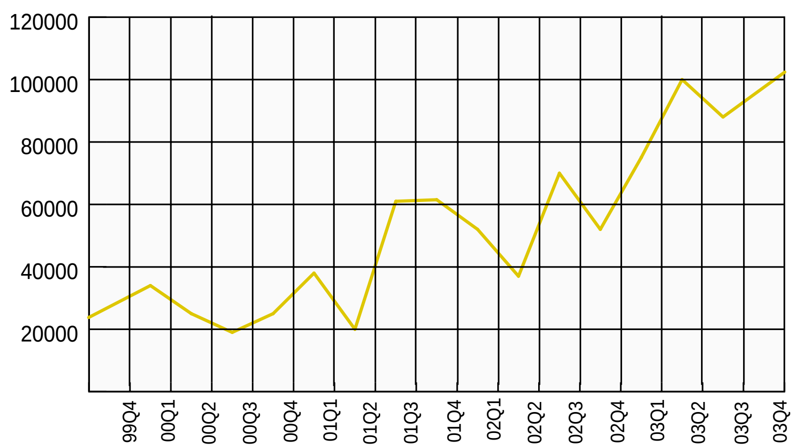
- Managing the Mint's educational website. This website is called H.I.P. Pocket Change™ and is posted at www.usmint.gov/kids. H.I.P. Pocket Change features coin-related games, lesson plans and fun facts for teachers, parents, and children. The site has received more than 2.5 million visits since its launch in 1999. During FY 2003 alone, H.I.P. Pocket Change received more than 930,000 visits – up by 38 percent since FY 2002.
- Posting on H.I.P. Pocket Change new lesson plans targeting K through 6th graders as each new state quarter is launched. During FY 2003, these free lesson plans were downloaded more than 770,000 times. Because of the popularity of these lesson plans, MEI will soon post lesson plans for 7th through 12th graders on H.I.P. Pocket Change, as well.

- Sponsoring a "Coins In The Classroom" lesson plan contest that will reward the creators of innovative coin-centric lesson plans, and then publicize winning lesson plans.

- Coordinating educational and community outreach activities for the Mint's field facilities.

- Collaborating with government organizations, such as the U.S. Department of Education's Federal Interagency Committee on Education.

THE UNITED STATES MINT H.I.P. POCKET CHANGE
WEB SITE VISITORS BY QUARTER



MINT DIRECTORS CONFERENCE

The Mint Directors Conference (MDC) is an international body composed of national and private mints. During the last forty years, the MDC has been devoted almost exclusively to manufacturing issues.

During FY 2003, Director Henrietta Holsman Fore served as Vice President of the MDC. In this capacity, she has been directing the planning of the XXIII MDC, which will be held in San Francisco in March 2004. Marking a watershed for the MDC, the agenda of the XXIII MDC will devote as much attention to marketing issues as to manufacturing issues. This expanded focus is designed to help mints pursue new markets for their products in order to accommodate worldwide declines in coin demand. Immediately following the XXIII MDC in San Francisco, Director Fore will become President of the XXIV MDC.

Acclaim For Mint Website

The United States Mint's educational H.I.P. Pocket Change website was named "Editor's Pick" by NEA Today, the journal of the National Education Association, the largest teachers union in the United States.

An Award-Winning Advertising Program

The United States Mint's commercial advertisements won three First Place Aegis Awards for 2002; these are among the most sought-after awards in the advertising industry. The United States Mint also won three Telly Awards for 2003; the Telly Award competition is the only national video competition that features peer judging.

The United States Mint's advertising campaign helped the Mint gain about 200,000 new customers and about 100,000 new subscriptions during FY 2003.

"A beautiful country like ours deserves equally beautiful coinage."
– President Theodore Roosevelt

RENAISSANCE IN COIN DESIGN

Artistic Infusion Program: During FY 2003, the Mint established an Artistic Infusion Program that is designed to enrich and invigorate the designs of coins and medals produced by the Mint. This program will create a pool of up to 20 accomplished sculptors, engravers, design experts (Master Designers) and up to 20 college-level or graduate-level art students (Associate Designers) who will be invited to submit drawings of new designs for selected projects.

Laying the groundwork for the Artistic Infusion Program will involve distributing a "Call for Artists" to trade publications, arts organizations, universities and the media; developing application procedures; establishing procedures for evaluating applicants; and entering into a partnership with the National Endowment for the Arts (NEA) that will enable NEA to help evaluate artists' applications.

All artists who participate in the Artistic Infusion Program will enter into a one-year, renewable agreement with the Mint that includes legal provisions for the assignment of rights for submitted designs. In addition, they will attend an orientation and symposium that will highlight the history of the design of United States coins and medals and introduce upcoming design opportunities.

Coin Redesign: The Mint is pleased that the American 5-Cent Coin Design Continuity Act of 2003 was enacted. This historic act authorizes the Secretary of the U.S. Treasury to change the design of the 5-cent coin (the nickel), which has remained unchanged since 1938. In accordance with the act, the Mint will introduce the first in a series of new nickel reverses in 2004 that will honor the bicentennial of the Louisiana Purchase and the subsequent Lewis and Clark expedition into the Louisiana Territory. In 2006, the design of the nickel's reverse will return to an image of Monticello.

The American 5-Cent Coin Design Continuity Act of 2003 also created the Citizens Coinage Advisory Committee (CCAC), an 11-member board that advises the Secretary of the Treasury on designs for circulating coins, bullion coins, commemorative coins and medals, and mintage levels.

COMMEMORATIVE COINS

United States Military Academy Bicentennial Commemorative Silver Dollar: This coin honors the 200th Anniversary of the founding of the United States Military Academy (USMA). It was available from March 16, 2002 to March 16, 2003. About $3.9 million, which was generated from sales of USMA Bicentennial coins, was paid to the Association of Graduates to help support the education and training of USMA cadets.

The First Flight Centennial Commemorative Coins: A $10 gold coin, a one-dollar silver coin and a half-dollar clad coin honor the 100th anniversary of the Wright Brothers' historic flight near Kitty Hawk, North Carolina on December 17, 1903. Released on August 1, 2003, these coins will be available until July 31, 2004. A portion of proceeds generated from sales of First Flight coins is authorized to help pay for the upkeep of the Wright Brothers Monument and the Wright Brothers National Memorial Park in North Carolina.

2002 Olympic Winter Games Commemorative Coins: A gold five-dollar coin and a silver dollar honor the 2002 Olympic Winter Games in Salt Lake City, Utah. These coins were available throughout calendar year 2002 (which includes the first quarter of FY 2003). About $3.4 million was generated from sales of Olympic Winter Games Commemorative Coins. This sum was paid to the Salt Lake Organizing Committee and the United States Olympic Committee.

AMERICAN EAGLE BULLION COIN SALES

A bullion coin is valued by its weight of a specific precious metal. By contrast, commemorative or numismatic coins are valued by limited mintage, rarity, condition, and age. American Eagle Bullion coins, which are only produced by the Mint, are typically purchased by investors seeking a simple, tangible means to own and invest in the gold, silver, and platinum markets. During FY 2003, sales of American Eagle Bullion coins totaled about $235 million – up by 26 percent from FY 2002.

AMERICAN EAGLE COIN SALES

The Mint produces proof versions of American Eagle coins for collectors. The term "proof" refers to a specialized minting process that produces softly frosted, detailed images on a mirror-like field. During FY 2003, proof sales totaled $61 million – up by 8 percent from FY 2002.

American Eagle Proof coins sold briskly throughout FY 2003. Particularly noteworthy were sales of one-ounce 2003-dated American Eagle Gold Proof coins, which sold out only seven weeks after their introduction – a full month faster than the 2002-dated version of this product. In addition, sales of all denominations of 2003-dated American Eagle Gold Proof coins exceeded sales of 2002-dated versions of these products. Furthermore, American Eagle Silver Proof coins sold at a record pace.

Also during FY 2003, the prices of American Eagle Platinum and Gold Proof coins increased for the first time since FY 2000 and FY 1998, respectively. These increases compensated for increased platinum and gold prices.

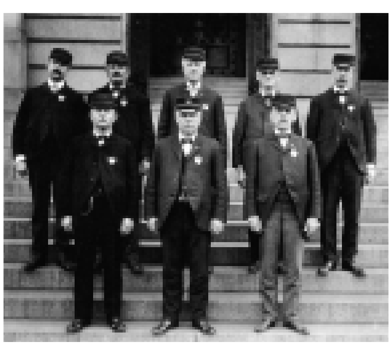
LICENSING/PARTNERSHIPS

During FY 2003, the Mint also established an Office of Licensing in the Office of Sales and Marketing. The Office of Licensing's mission includes protecting the integrity and the image of the intellectual property of the Mint; building and enhancing the United States Mint brand; administering the selective issuance of intellectual property

Then: Reactive Policing

The Mint Police was established in 1792, when night watchmen were hired to guard the Philadelphia Mint, the first United States Mint. The United States Mint Police is one of the nation's oldest federal law enforcement agencies.

The Mint Police's early security efforts were primarily based upon patrols and physical barriers. The techniques and technology of the period did not encourage proactive crime prevention activities.



Circa 1900

licenses for the purposes of developing products, services, and programs that provide value for Mint customers and the American public; ensuring consistency and fairness in the issuance of intellectual property licenses; and generating revenue for deposit into the Public Enterprise Fund (PEF).

During FY 2003, the Mint developed a first-ever partnership with the United States Postal Service that produced new products. These products include sets that pair state quarters from the 50 State Quarters® Program with their counterpart stamps, two of the world's most popular types of collectables. Also during FY 2003, the Mint teamed with the Bureau of Engraving and Printing to sell new, uncut sheets of $1, $2 and $5 bills through the Mint Annual Collection and award-winning online catalog.

The Mint is currently exploring additional possibilities for partnering with other federal agencies to develop new products that celebrate our national heritage. For example, the Lewis and Clark Coin and Currency Set will be released in FY 2004 through the Mint's partnership with the National Archives and Records Administration (NARA).

PROTECTION

Twenty-four hours a day/seven days per week, the Mint Police protects more than 2,000 Mint employees and visitors, approximately $95.2 billion (market value at end of FY 2003) worth of the nation's gold and silver reserves, and hundreds of millions of dollars worth of equipment. During FY 2003, the Mint Police enhanced security at the Mint and supported the security efforts of other federal agencies.

ENHANCED SECURITY AT THE UNITED STATES MINT

During FY 2003, the Mint Police improved security at Mint facilities by:

- Strengthening the Mint Police by establishing a competitive pay structure that is reducing turnover. In the wake of the terrorist attacks of September 11, 2001, many federal security programs, such as the Federal Air Marshals Program, initiated aggressive recruiting campaigns. As a result, turnover within the Mint Police reached 41 percent during FY 2002. The Mint Police's new pay structure was designed to mitigate this high turnover rate.

- Improving the physical security of Mint facilities by expanding its force by 10 full time employees in order to secure Mint Headquarters, upgrading intrusion systems, detection systems and state-of-the-art communications systems, increasing capabilities to detect Weapons of Mass Destruction (WMD), and continuously conducting threat assessments.

- Advancing intergovernmental collaboration on security and intelligence networking. This effort has involved sharing information about potential threats and

vulnerabilities with domestic security agencies, such as the FBI Joint Terrorism Task Force, and with international law enforcement bodies, such as INTERPOL. The Mint Police has also expanded its partnerships with local and state police forces through various activities including entering into a Memorandum of Understanding (MOU) with local enforcement agencies whose jurisdictions cover Mint facilities. In addition, the Mint Police assumed a leadership role in the development of cooperative emergency evacuation procedures by the newly formed Washington, D.C. Chinatown Emergency Preparedness Group. The Mint Headquarters facility is located in Chinatown.

- Improving Mint Police Readiness, Response and Recovery (R3) operations. The Mint Police is prepared to transfer Mint operations to alternative, secured sites if our facilities are disabled by a terrorist threat or damaged during an attack. Further, the emergency responses of the Mint Police at all of our facilities are synchronized and coordinated. The Mint Police also regularly leads drills for employees in emergency response.

SUPPORT TO OTHER FEDERAL AGENCIES

During FY 2003, the Mint Police supported the security activities of other federal agencies by:

- Providing contingency planning support to selected federal agencies. This effort involved securing some assets of other government agencies at Mint facilities. The availability of these secured assets will help enable these government agencies to continue operating if their own facilities are disabled by a terrorist threat or damaged by a terrorist attack.

- Deploying the Mint Police to high-profile special events including the Kentucky Derby in Louisville, Kentucky, the International Monetary Fund/World Bank meetings in Washington, D.C. and the dedication of the National Constitution Center in Philadelphia, Pennsylvania. In addition, the Mint Police participated in TOPOFF II (Top Officials) – a national-level domestic and international exercise series designed to produce a more effective, coordinated global response to WMD terrorism.

- Advancing joint enforcement initiatives by entering into a Memorandum of Agreement (MOA) with the U.S. Marshals Service to support Department of Justice Programs and by providing support to other agencies, as requested.

Now: Strategic Policing

The Mint Police secures the United States Mint's six facilities with armed patrols, electronic surveillance systems, high-tech command and control centers, and state-of-the-art information technology systems. The Mint Police also contributes to information gathering operations that are designed to prevent attacks and manages comprehensive contingency plans.

Mint Police officers receive intensive training in forensics, criminal law, search and seizure, communications, interviewing, self-defense, firearms and survival, among other topics.

Creating a Model Workplace

The United States Mint is striving to create a model workplace where all employees are treated with respect, dignity and fairness.

OFFICE OF THE CHIEF FINANCIAL OFFICER

The Office of the Chief Financial Officer (OCFO) manages and reports the Mint's financial data; manages the Mint's policies on human resources, procurement and management controls; and provides overall management support to the Mint. During FY 2003, OCFO adopted new administrative procedures and information technology (IT) technologies that improved financial accounting and planning, check processing procedures, human resources management, contracting, competitive sourcing studies, property management, and overall management controls. In addition, OCFO's release of the Mint's new strategic plan reinforced the Mint Values of accountability, leadership, trust/respect/integrity, teamwork and communication.

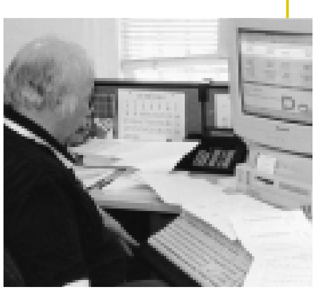
FINANCIAL ACCOUNTING AND PLANNING

FY 2003 marked the first year during which OCFO consistently closed its books within two business days of the last day of each month. Furthermore, after closing the Mint's books each month, OCFO – following a "one report – one system" management philosophy – quickly incorporated the Mint's monthly financial data into comprehensive reports of the Mint's financial and operational performance. Because these monthly financial/operational reports compare actual financial activity vs. planned activity for individual offices as well as for the entire Mint, they are significantly more comprehensive than financial reports produced during previous years.

Also throughout FY 2003, OCFO posted the Mint's monthly financial/operational reports on the Mint's Intranet. These postings enabled all Mint managers – from the highest-level executives to front-line managers – to easily access the same financial information at the same time. OCFO thereby provided new tools that promoted consistent and informed decision-making throughout the organization. In addition, by updating the Mint's financial and operational reports regularly and by broadening their scope, OCFO encouraged more proactive, agile financial decision-making than had been possible before. For example, during FY 2003, the Mint's financial and operational reports supported precedent-setting mid-year adjustments to spending that accommodated fast-changing economic conditions.

AUTOMATED CHECK PROCESSING

During FY 2003, OCFO, together with the Office of the Chief Information Officer (OCIO), transitioned the Mint to a Paper Check Conversion (PCC) system. This PCC system converts paper checks into electronic debits to a check writer's account at the point of sale, and enables funds to be quickly transferred from the customer's account into the Mint's account. Because the PCC system is automated, it increases productivity and boosts the efficiency of collections and reporting processes. In addition, because this system makes check processing as fast and hassle-free as credit card transactions, it improves the Mint's customer service and strengthens anti-fraud efforts.



HUMAN RESOURCES MANAGEMENT

During FY 2003, OCFO implemented the U.S. Treasury Department's HR Connect – an enterprise-wide system that supports the automation of personnel actions. This

project involved purchasing Learning Management System (LMS) software, which supports the automation of personnel development and performance tracking actions and provides an interface to HR Connect. These capabilities are enabling the Mint to translate business needs into workforce learning needs, and then to link workforce learning needs with employee competencies.

The cost-effectiveness of LMS implementation was enhanced by OHR's procurement of the system through the Department of Transportation's Virtual University – a government-wide e-learning initiative that capitalizes on the economies of scale afforded by such a large program.

REENFORCING MINT VALUES

During FY 2003, OCFO released the *United States Mint Strategic Plan 2002-2007 One Team. One Vision*. This plan defines the Mint's values of accountability, leadership, trust/respect/integrity, teamwork and communication. It also promotes these values by establishing objective, measurable goals that help enhance safety and security, safeguard the Mint's integrity and authenticity, encourage collaboration with other federal agencies, and facilitate benchmarking against best-in-business practices. By setting forth these goals across the entire organization, this strategic plan advances a unified, integrated approach that assigns responsibility to all Mint employees for serving the American people, meeting the expectations of the numismatic community, and pursuing excellence.

In addition, recognizing that Mint employees serve as the Mint's backbone, the Mint's new strategic plan identifies strategies for improving internal communications, accountability, and leadership; expanding training and career ladders; and creating a learning organization. These strategies complement the Mint's efforts to create a model workplace.

CONTRACTING

OCFO's accomplishments for FY 2003 include issuing a Mint-wide policy to increase the use of performance-based service contracts. Such contracts benefit the Mint because they are designed to encourage contractors to exceed minimum requirements on timeliness and quality.

This new policy has significantly increased the use of performance-based service contracts throughout the Mint. About 80 percent of all service contracts awarded for OCIO during FY 2003 were performance based. This achievement is especially significant because service contracts for OCIO account for the majority of the Mint's service contracts.

COMPETITIVE SOURCING

During FY 2003, the Office of Competitive Sourcing was established within OCFO to manage all of the Mint's competitive sourcing studies. By consolidating the Mint's competitive sourcing studies into a single office, the Mint is ensuring that all

Model Workplace Activities

During FY 2003, the United States Mint:

- *Reminded all employees of our zero tolerance for discrimination.*
- *Kicked-off an Ombudsman Program that provides confidential, impartial avenues for resolving workplace problems.*
- *Issued a policy and provided Mint-wide training on Alternative Dispute Resolution (ADR).*
- *Created an executive-led Solutions Team that resolves issues through the coordinated efforts of our Ombudsman, ADR Program and Equal Employment Opportunity (EEO) Program.*
- *Released a strategic plan that identifies respecting/valuing our employees as a top priority, and establishes new strategies for enhancing communication, recognizing employees, and expanding career opportunities.*
- *Worked to identify model workplace best practices for implementation, and created a partnership with the Equal Employment Opportunity Commission (EEOC) to contribute to our ADR and EEO programs.*

Mint Earns High Performance Assessment Rating

The Office of Management and Budget (OMB) uses a program assessment rating tool known as PART to evaluate the purpose, management, and results of federal programs. During FY 2003, the Mint's circulating coin program scored 85 percent on PART, which was among the highest scores received by any bureau within the Department of the Treasury.

OCFO played a leadership role in the PART review by working with the Office of Manufacturing to analyze the circulating coin program's strengths and to submit answers to a lengthy OMB questionnaire.

of these studies receive adequate resources and are consistently conducted. The Mint's consolidated approach also clearly defines accountability for management of these studies. Currently, the Human Resources and the Customer Care Center are under study. Blanking, Annealing, and Upsetting; Powered Industrial Trucks; and Accounts Payable are scheduled to be studied in FY 2004.

OCFO's Office of Human Resources is complementing the Office of Competitive Sourcing's management of competitive sourcing studies by evaluating the potential impacts of possible study results on the workforce. By advancing the Mint's competitive sourcing efforts, OCFO is helping the Mint cut costs, eliminate operational inefficiencies, and comply with the President's Management Agenda (PMA), which includes competitive sourcing as a top priority.

PROPERTY MANAGEMENT

During FY 2003, OCFO automated the inventory and tracking of equipment, furniture and other property through a personal property inventory management program that uses a state-of-the-art Automated Data Collection System (ADCS). This automation enhances the Mint's ability to manage property and helps safeguard against theft.

OFFICE OF THE CHIEF INFORMATION OFFICER

The Office of the Chief Information Officer (OCIO) manages the Mint's IT resources. During FY 2003, OCIO expanded electronic government (e-Gov) resources, improved its enterprise architecture, enhanced enterprise resource planning, and strengthened IT security.

E-GOVERNMENT

During FY 2003, OCIO created several websites for Mint employees on emergency preparedness, personnel matters, press coverage of Mint activities, and the schedules of coin shipments from the Mint to the Federal Reserve. These innovations improved the Mint's internal communications and supported the goal of the PMA of expanding e-government within the federal government.

ENTERPRISE ARCHITECTURE

OCIO continually works to more closely align the Mint's enterprise architecture (EA) with the Mint's business practices. During FY 2003, the Mint advanced this effort by analyzing the workflow processes of the Office of Sales and Marketing's Electronic Solutions Project (eSP), which is part of the Internet retail sales program.

ENTERPRISE RESOURCE PLANNING

During FY 2003, OCIO improved the enterprise resource planning (ERP) system by:

- Resolving audit findings and addressing the security of ERP applications.

- Migrating the Mint's stand-alone bullion coin ordering system to the ERP system. This migration, which was completed jointly with the OCFO and the Office of Manufacturing, is enabling the Mint to manage bullion orders in real time and enhancing the security and access controls of the bullion coin ordering system. In addition, this migration marked the first time that the Mint implemented a Public Key Infrastructure (PKI) encrypted and authenticated communication into a business process. The PKI system is a cutting-edge technology that enhances the security of information that travels over the Internet.

- Implementing new interfaces to the Central Contractor Registration (CCR) and National Finance Center (NFC). This project, which was completed jointly with the OCFO, will enable the Mint to access the CCR's data on vendors. This access will help the Mint authenticate billing information from vendors and thereby improve the Mint's safeguards against vendor fraud. These new interfaces will also reduce duplication of vendor data and improve the efficiency of processing employees' expenses for travel and other purposes through the NFC.

INFORMATION SECURITY

During FY 2003, the Mint remained free of data losses, breaches of confidentiality and compromises to data integrity from cyber-attacks and contamination from malicious codes. The security of the Mint's data was strengthened during this fiscal year by OCIO's development and implementation of a certification and accreditation program for each major application and general support system used by the Mint. These programs are designed to protect each application and system by controls that are required by the Federal Information Security Management Act (FISMA) of 2002.

OCIO's activities during FY 2003 also included developing a new Information Technology Disaster Recovery Plan for each field facility, and updating the Comprehensive Disaster Plan for Headquarters.

Mint Wins "Excellence in Enterprise Architecture" Award

In September 2003, the United States Mint was presented with the "Excellence in Enterprise Architecture" award by the Federal Enterprise Architecture Certification (FEAC) Institute, Federal Computer Week, and e-Gov. This award recognizes best practices in the development and implementation of enterprise architecture (EA).

The United States Mint's EA provides an infrastructure that supports and integrates the Mint's business operations and information technology systems. It thereby improves information access for decision-making, supports reusability of information, reduces the need for system maintenance, and cuts maintenance costs.

THE 50 STATE QUARTERS® PROGRAM

The 50 State Quarters Program® is an unprecedented 10-year initiative (1999 through 2008) that honors each state with a unique design for the reverse of its state quarter; the obverse of all state quarters showcases an image of George Washington. A new state quarter is released approximately every ten weeks, and states are honored in the order in which they were accepted into the Union.

The Mississippi state quarter showcases the beauty and elegance of the state flower.

"The magnolia bloom on your state quarter represents your state's natural beauty…There is so much in Mississippi to be proud of, and coins like these are one record of your history and pride that will be shared through generations."

-- Director Fore with Mississippi Governor Ronnie Musgrove at Mississippi state quarter launch; Jackson, Mississippi; October 22, 2002

The Illinois state quarter depicts a young Abraham Lincoln surrounded by the outline of the state. A farm scene and a city skyline appear on the left and right of the outline.

"This design is one of the most distinctive of the series. It is the first U.S. coin to feature a young Abraham Lincoln, and thus it is a numismatic first."

-- Director Fore with Illinois First Lady Lura Lynn Ryan at Illinois quarter launch; Chicago, Illinois; January 6, 2003

The Alabama state quarter features an image of Helen Keller, who was born in Tuscumbia, Alabama. This coin also showcases Helen Keller's name, which appears in English and in a reduced-sized version of Braille. The Alabama state quarter is the first circulating coin to feature Braille, the first circulating coin to feature a disabled woman, and the third coin to feature the image of an historic woman (rather than an image of an allegorical woman).

"This new quarter honors a citizen of Alabama whose exceptional courage and commitment to education produce enduring inspiration to the world."

-- Director Fore with Alabama Governor Bob Riley at Alabama quarter launch; Tuscumbia, Alabama; March 24, 2003

The Maine state quarter depicts Pemaquid Point Light, which is among Maine's most popular tourist attractions, and a schooner at sea.

"The Maine state quarter is the first U.S. circulating coin to feature a lighthouse. Not only does this design underscore Maine's longstanding maritime tradition, it embraces the natural beauty for which the state is world-famous."

-- Director Fore with Maine Governor John Baldacci at Maine quarter launch; New Harbor, Maine; June 9, 2003

The Missouri state quarter depicts Lewis and Clark's historic return to St. Louis down the Missouri River, with the Jefferson National Expansion Memorial (Gateway Arch) in the background.

"The Missouri quarter depicts the rich history and the spirit of adventure at the heart of this great state and our Nation."

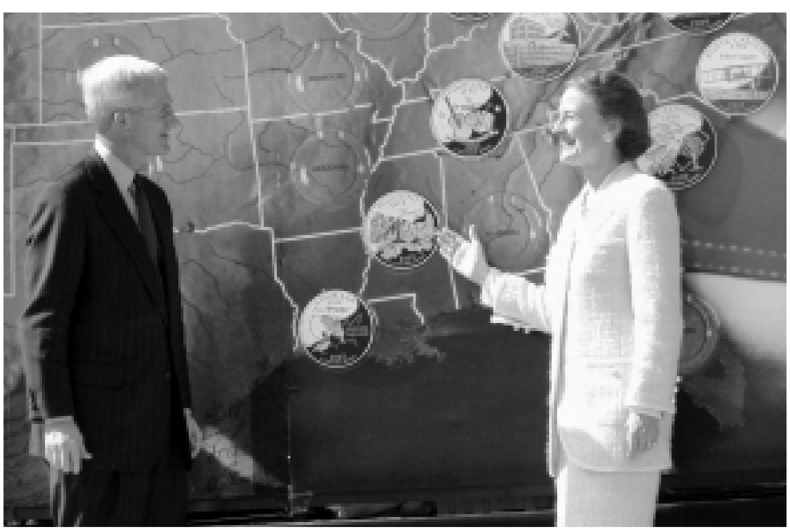
-- Director Fore with Missouri Governor Bob Holden at Missouri State Fair; Sedalia, Missouri; August 10, 2003

AMERICA LOVES THE 50 STATE QUARTERS® PROGRAM

State quarters are currently collected by about 130 million people – which equals about one person per United States household. No other collectible product in history has ever achieved such popularity.

The 50 State Quarters® Program is completely self-supporting. Partly because of this program, the Mint returned $600 million in results and profits to the United States Treasury in FY 2003.

The Mint actively reaches out to all parts of the collectibles industry and consumers so that they may be treated fairly and can purchase the highest quality United States coins produced by the United States Government. As the only government agency charged with the production of legal tender United States coinage and collectible-grade coins whose weight and purity are guaranteed by the United States Government, the Mint accompanies its coins and coin-based products with Certificates of Authenticity that guarantee their legitimacy and keep the market vibrant and collectors enthusiastic.



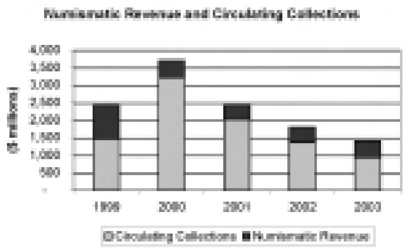
The unique design of each state quarter is developed through an approximately two-year collaboration between the state, the United States Mint, the Citizens Coinage Advisory Committee and the U.S. Commission on Fine Arts. To celebrate these collaborations and to generate public interest in coin design and American history, the Director of the United States Mint unveils each new state quarter at a launch event that is usually co-hosted by the governor of the state.

Attended by thousands of children and adults, each launch event is located at a thematically-relevant location in the state. The agenda of each launch event salutes state culture, geography, natural resources and pertinent historical events, and promotes coin collecting. The festive atmosphere of each event is heightened by speeches from state luminaries.

MANAGEMENT'S DISCUSSION & ANALYSIS

OVERVIEW

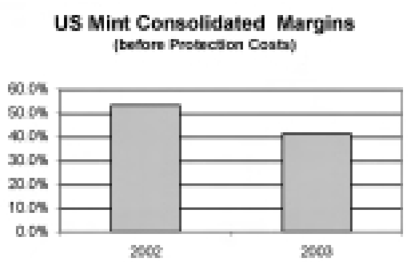
The United States Mint's (the Mint) financial results are prepared in accordance with the Chief Financial Officer's (CFO) Act of 1990. The consolidated financial statements represent the operations of the entire Mint, including the circulating, numismatic, and protection programs. Management's discussion and analysis serves to explain the consolidated financial statements as well as to explain program performance. The Mint uses a set of key performance indicators to manage operations, and an analysis of the results of these indicators follows the discussion of the financial results.



DISCUSSION & ANALYSIS OF CONSOLIDATED OPERATIONS

The major factor that affects the operations of the Mint is the state of the economy. When the economy is weak, commercial activity declines and the demand for circulating coinage falls. Weak economic conditions in FY 2003 caused circulating collections and numismatic (non-bullion) revenue to decrease but bullion revenue to increase. In addition, the Federal Reserve Bank (FRB) reduced inventories by 22 percent in FY 2003, which further depressed circulating sales. As a result, circulating coin collections decreased to $937.4 million in FY 2003 from $1,364.2 million in FY 2002. Weak economic conditions also caused numismatic non-bullion sales to decrease to $234.9 million in FY 2003 from $253.3 million in FY 2002. Bullion sales, however, increased to $235.4 million in FY 2003 from $186.7 million in FY 2002. We believe that demand for precious metals was largely driven by volatility in the stock market and the Iraqi conflict. As a result, the Mint's American Eagle uncirculated (bullion) products, investment grade precious coins, benefited from the increased demand.

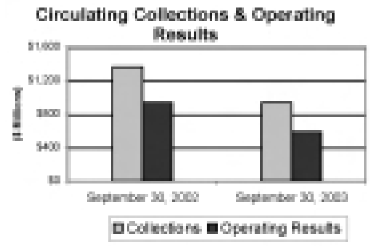
Total circulating operating results and numismatic profit fell to $579.0 million in FY 2003 from $961.1 million in FY 2002. Margins declined for both circulating and numismatic products. As a result, total margins before protection costs fell to 41 percent in FY 2003 from 53 percent in FY 2002. Circulating margins declined to 61 percent in FY 2003 from 68 percent in FY 2002 due to low sales and fixed costs being spread over a smaller revenue base. The numismatic margins were also lower, falling to 0.9 percent in FY 2003 from 7.6 percent in FY 2002. Higher sales of the lower margin products in the American Eagle Bullion program and higher advertising costs were the primary reasons for the decrease.

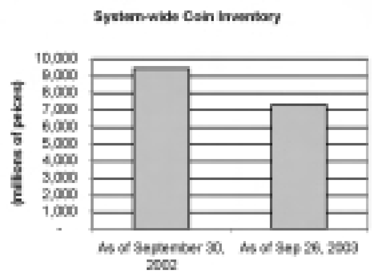


DISCUSSION & ANALYSIS OF CIRCULATING COINAGE OPERATIONS

The Mint produces the circulating coins used to conduct commercial transactions across the nation. The Mint ships new coins to the FRB as they are needed to replenish inventory and fulfill commercial demand. The Federal Reserve reimburses the Mint at face value for the coins when they are shipped. The costs to manufacture the coins are small relative to the face value of the coins. As a result, the circulating coins, especially the higher value denominations, usually have high margins. The operating results are returned to the U.S. Treasury General Fund (for more information on returns to the General Fund in FY 2003, see the section on Transfers to the General Fund).

Total circulating collections decreased 31 percent to $937.4 million in FY 2003 from $1,364.2 million in the prior year. The circulating operating results decreased 38 percent to $574.8 million from $927.8 million in the prior year. The decrease in coin demand was driven by a weak economy and high system-wide inventories. In FY 2001-2002, the Federal Reserve built large stockpiles of coin inventory. In FY 2003, the FRB made an effort to reduce inventories by supplying the country's commercial coin demand from existing inventories, reducing the FRB's orders from the Mint. System-wide coin inventory decreased 22 percent to 7.3 billion pieces in FY 2003 from 9.4 billion pieces in FY 2002. The 2.1 billion piece inventory reduction reduced the Mint's collections by over $200 million in FY 2003.





CIRCULATING COLLECTIONS AND OPERATING RESULTS (IN MILLIONS) FOR THE YEAR ENDED SEPTEMBER 30, 2003

	Penny	Nickel	Dime	Quarter	Half	Dollar	Mutilated & Other	Total
Collections	$64.3	$37.2	$188.4	$617.9	$4.5	$25.1	$0.0	$937.4
Cost of Goods Sold	61.2	26.2	37.6	113.8	0.8	4.3	0.0	243.9
Selling, General & Administrative	2.1	2.1	23.0	76.7	0.5	3.5	0.0	107.9
Other Costs and Expenses	0.0	0.0	0.0	0.0	0.0	0.0	10.8	10.8
Operating Results	$1.0	$8.9	$127.8	$427.4	$3.2	$17.3	($10.8)	$574.8
Margin	1.6%	23.9%	67.8%	69.2%	71.1%	68.9%		61.3%

CIRCULATING COLLECTIONS AND OPERATING RESULTS (IN MILLIONS) FOR THE YEAR ENDED SEPTEMBER 30, 2002

	Penny	Nickel	Dime	Quarter	Half	Dollar	Mutilated & Other	Total
Collections	$75.2	$65.1	$263.3	$904.0	$4.4	$52.2	$0.0	$1,364.2
Cost of Goods Sold	64.9	40.2	49.8	147.3	0.6	3.2	0.0	306.0
Selling, General & Administrative	1.5	3.0	23.5	86.8	0.4	7.2	0.0	122.4
Other Costs and Expenses	0.0	0.0	0.0	0.0	0.0	0.0	8.0	8.0
Operating Results	$8.8	$21.9	$190.0	$669.9	$3.4	$41.8	($8.0)	$927.8
Margin	11.7%	33.6%	72.2%	74.1%	77.3%	80.1%		68.0%

The weak economy and high system-wide inventory levels caused collections for all denominations except for the half-dollar to decline. Penny, nickel, and dime collections decreased to $289.9 million in FY 2003 from $403.6 million in FY 2002. Quarter collections have steadily decreased the past four years from $1.5 billion in FY 2000, to $1.4 billion in FY 2001, to $904.0 million in FY 2002, to $617.9 million in FY 2003. Although decreasing, quarters continue to be the largest selling denomination due to the 50 State Quarters® Program's collector appeal, comprising 66 percent of total circulating coin collections in both FY 2003 and FY 2002. As a

result of the high quarter collections in FY 2000 and FY 2001, system-wide quarter inventories are above historical averages. Demand for newly minted state quarters is expected to remain low.

Circulating margins decreased to 61 percent in FY 2003 from 68 percent in FY 2002 due to the decline in collections, resulting in fixed costs being spread over a smaller collection base. Penny margins fell to 1.6 percent in FY 2003 from 11.7 percent in FY 2002 due to lower than anticipated production. The Mint produced 6 billion pennies in FY 2003 compared to an average annual production of 11 billion from FY 1998 to FY 2002. The cost per unit increased because fixed costs were spread over a smaller collection base. The low production volume also caused the cost of blanks to increase because the Mint's unit cost of blanks from the supplier decreases as volume increases. Since orders from the supplier were less than anticipated, the cost of the blanks were $0.0004 more than initially planned. Low collections, as well as equipment write-offs, lead to decreased profit margins in all circulating denominations. The nickel's margin decreased to 24 percent from 34 percent in the prior year, the dime's margin decreased to 68 percent from 72 percent in the prior year, the quarter's margin decreased to 69 percent from 74 percent in the prior year, the half-dollar's margin decreased to 71 percent from 77 percent in the prior year, and the dollar's margin decreased to 69 percent from 80 percent in the prior year.

Total Cost of Goods Sold (COGS) as a percentage of collections rose to 26 percent in FY 2003 from 22 percent in FY 2002. Penny COGS increased to 95 percent of collections from 86 percent in the prior year, nickel COGS increased to 70 percent of collections from 62 percent in the prior year, dime COGS increased to 20 percent of collections from 19 percent in the prior year, quarter COGS increased to 18 percent of collections from 16 percent in the prior year, half-dollar COGS increased to 18 percent of collections from 14 percent in the prior year, and dollar COGS increased to 17 percent of collections from 6 percent in the prior year. The selling, general and administrative (SG&A) costs associated with the circulating products also contributed to the decreased margins. Circulating SG&A decreased to $107.9 million in FY 2003 from $122.4 million in FY 2002. However, SG&A as a percent of collections increased to 12 percent in FY 2003 from 9 percent in FY 2002 as a result of the decline in collections. The following charts show that COGS and SG&A increased for all denominations on a per unit basis.

UNIT COST OF PRODUCING AND DISTRIBUTING COINS FOR THE YEAR ENDED SEPTEMBER 30, 2003

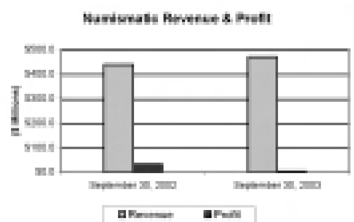
	Penny	**Nickel**	**Dime**	**Quarter**	**Half**	**Dollar**
Cost of Goods Sold	$0.0093	$0.0346	$0.0197	$0.0452	$0.0902	$0.1694
General & Administrative	$0.0003	$0.0028	$0.0122	$0.0311	$0.0583	$0.1410
Distribution to FRB	$0.0002	$0.0004	$0.0002	$0.0008	$0.0007	$0.0017
Total Expenses	$0.0098	$0.0378	$0.0321	$0.0771	$0.1492	$0.3121

UNIT COST OF PRODUCING AND DISTRIBUTING COINS
FOR THE YEAR ENDED SEPTEMBER 30, 2002

	Penny	Nickel	Dime	Quarter	Half	Dollar
Cost of Goods Sold	$0.0085	$0.0306	$0.0187	$0.0400	$0.0664	$0.0607
General & Administrative	$0.0002	$0.0023	$0.0089	$0.0229	$0.0433	$0.1049
Distribution to FRB	$0.0002	$0.0003	$0.0002	$0.0008	$0.0013	$0.0011
Total Expenses	$0.0089	$0.0332	$0.0278	$0.0637	$0.1110	$0.1667

DISCUSSION & ANALYSIS OF NUMISMATIC OPERATIONS

Total numismatic revenues increased to $470.3 million in FY 2003 from $440.0 million in FY 2002. The increase in total numismatic revenues was driven by high demand for precious metals, which drove American Eagle uncirculated (bullion) sales higher. Bullion sales comprised 50 percent of total numismatic revenue in FY 2003 compared to 42 percent in FY 2002. However, the total numismatic profit margin decreased to 0.9 percent in FY 2003 from 7.6 percent in FY 2002 as bullion constituted a higher percentage of total sales. The bullion is sold at a low margin similar to other numismatic products worldwide. In contrast to the bullion program, numismatic non-bullion revenues decreased to $234.9 million in FY 2003 from $253.3 million in FY 2002. Numismatic non-bullion margins fell to 1.3 percent from 11.5 percent in FY 2002, despite an advertising campaign, due to weak retail conditions and delayed introduction of key products.



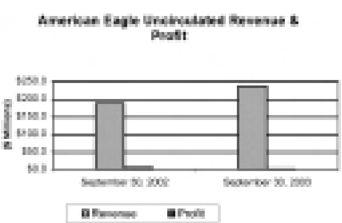
NUMISMATIC PROFIT AND LOSS (IN MILLIONS)
FOR THE PERIOD ENDED SEPTEMBER 30, 2003

	American Eagle Uncirculated	American Eagle Proof	Commemoratives	Recurring	Total
Revenue (less surcharges)	$235.4	$61.0	$7.3	$166.6	$470.3
Cost of Goods Sold	232.8	41.9	5.5	114.9	395.1
Selling, General & Administrative	1.4	17.4	1.8	50.4	71.0
Profit (Loss)	$1.2	$1.7	$0.0	$1.3	$4.2
Profit Margin	0.5%	2.8%	0.0%	0.8%	0.9%

NUMISMATIC PROFIT AND LOSS (IN MILLIONS)
FOR THE YEAR ENDED SEPTEMBER 30, 2002

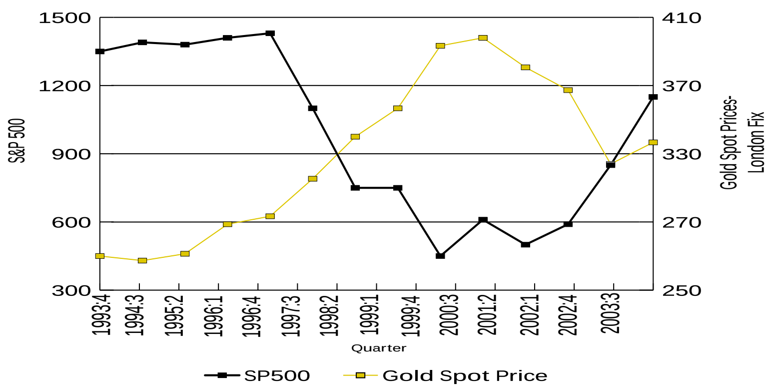
	American Eagle Uncirculated	American Eagle Proof	Commemoratives	Recurring	Total
Revenue (less surcharges)	$186.7	$56.6	$21.9	$174.8	$440.0
Cost of Goods Sold	181.0	35.3	12.3	118.4	347.0
Selling, General & Administrative	1.6	11.2	6.1	40.8	59.7
Profit (Loss)	$4.1	$10.1	$3.5	$15.6	$33.3
Profit Margin	2.2%	17.8%	16.0%	8.9%	7.6%

AMERICAN EAGLE UNCIRCULATED (BULLION)

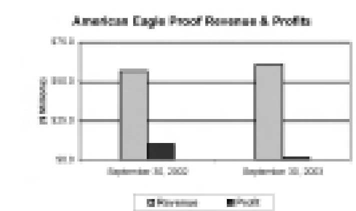


American Eagle Bullion sales increased to $235.4 million in FY 2003 from $186.7 million in FY 2002. The American Eagle Bullion Program has historically had increased sales when the stock market is declining as investors migrate to precious metals as a defensive investment. The chart below shows the relationship between gold prices and the Standard & Poor's (S&P) 500 Index. From 1994 to 1997, the quarterly gold prices remained at a stable level as the stock market grew at a moderate pace. When the technology boom began in 1997, gold prices fell as investors put more money in the stock market. Gold prices remained low from 1997 to 2000 as the S&P 500 Index continued to rise. Accordingly, sales of American Eagle Bullion were relatively low as investors sought out higher-yielding investments. In 1999, gold prices rose briefly because of uncertainty surrounding the year 2000 change. When the equities markets began to decline dramatically in calendar year 2000, gold prices increased again as investors reallocated their portfolios to more diversified investments. Gold prices have remained relatively high the past two years as the equities markets have remained relatively low and volatile, driving American Eagle Bullion sales higher. In FY 2003, American Eagle Bullion sales were higher than anticipated due to the Iraqi conflict, which suppressed the stock market. As a result of the increased demand for precious metals, the Mint revised the American Eagle Bullion sales plan in FY 2003 from $165 million to $300 million. At the conclusion of Operation Iraqi Freedom, however, the stock market began to rise and American Eagle Bullion sales slowed.

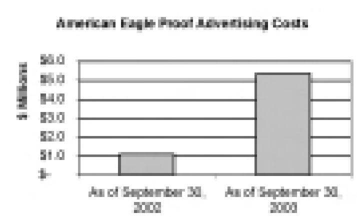
QUARTERLY GOLD PRICES V. S&P 500 INDEX



AMERICAN EAGLE PROOF

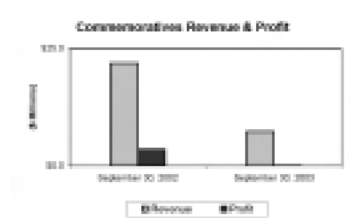


American Eagle Proof revenues increased to $61.0 million in FY 2003 from $56.6 million in FY 2002 due to increased marketing efforts and higher selling prices. Advertising expenses for American Eagle Proof programs increased to $5.3 million in FY 2003 from $1.1 million in FY 2002, and the average selling prices of American Eagle Proof products increased 10 percent from the prior year. However, the increased advertising effort and higher sales prices did not generate enough additional revenue to increase profits. As a result, American Eagle Proof profits declined to $1.7 million in FY 2003 from $10.1 million in FY 2002 and profit margins fell to 2.8 percent from 17.8 percent in the prior year. The 2003 American Eagle Platinum Proof Program was released in FY 2004 and, therefore, is not included in FY 2003 revenues.

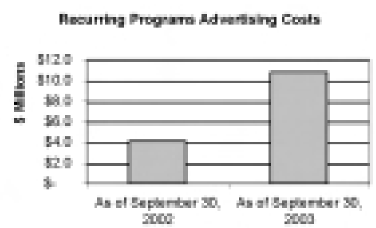


COMMEMORATIVE COINS

Commemorative revenue (less surcharges) dropped to $7.3 million in FY 2003 from $21.9 million in FY 2002. Typically, Congress authorizes the issuance of two commemorative coin programs per year. Congress only authorized the issuance of the First Flight Centennial Commemorative Coins in 2003 compared to two coin programs authorized in the prior year. The First Flight Centennial Commemorative Coins were released in September 2003. Therefore, most of the revenue from the First Flight coins will be realized in FY 2004. First Flight sales totaled $6.3 million in FY 2003. Commemorative revenues in FY 2003 also include residual sales of the U.S. Military Academy ($748,000) and 2002 Winter Olympic ($279,000) Commemorative Coins, which were authorized by Congress for issuance in 2002. The $10 gold, one-dollar silver and half-dollar clad First Flight Centennial Commemorative Coins commemorate the 100th anniversary of the Wright Brothers' historic flight near Kitty Hawk, North Carolina on December 17, 1903. Maximum mintages of 100,000 gold, 500,000 silver and 750,000 clad First Flight Centennial Commemorative Coins are authorized by law. Surcharges of $35 on the sale of each gold coin, $10 on the sale of each silver coin, and $1 on the sale of each clad coin are authorized to be



directed to the First Flight Centennial Foundation for the purposes of repairing, refurbishing and maintaining the Wright Brothers Monument and other facilities at the Wright Brothers National Memorial Park in Kitty Hawk, North Carolina.



RECURRING PROGRAMS

Recurring programs include proof sets, silver proof sets, uncirculated sets, 50 State Quarters® proof sets, 50 State Quarters® bags and rolls, and other miscellaneous products. Revenue from recurring programs decreased to $166.6 million in FY 2003 from $174.8 million in FY 2002 despite increased advertising efforts. Advertising expenses increased to $10.8 million in FY 2003 from $4.1 million in FY 2002, but did not generate additional revenue over the prior year due to the weak economy and delayed introduction of products. As a result, proof set revenues decreased to $45.1 million from $49.7 million in the prior year, silver proof revenues decreased to $31.8 million from $38.8 million, uncirculated set revenue decreased to $16.9 million from $18.5 million, and 50 State Quarters® bags and rolls revenue decreased to $25.6 million from $34.6 million. The increased advertising effort had a significant impact on the 50 State Quarters® proof program, however, as revenue increased to $18.1 million from $11.7 million in the prior year. The combination of the weak economy, fixed costs being spread over a smaller revenue base, higher advertising expenses, and product introduction delays reduced recurring program profits to $1.3 million in FY 2003 from $15.6 million in FY 2002 and profit margins fell to 0.8 percent from 8.9 percent.

DISCUSSION AND ANALYSIS OF PROTECTION OPERATIONS

The Office of Protection maintains a highly professional police force with the tools and resources needed to respond to changing threats. The Mint secures approximately $95.2 billion in market value of the nation's gold and silver reserves. Additionally, the Mint Police safeguards thousands of employees against threats at our facilities across the country.

Protection costs increased to $37.8 million in FY 2003 from $31.8 million in FY 2002. The increase in protection costs is a result of higher threat levels attributable to the September 11, 2001 terrorist attacks and efforts to recruit and retain a high quality police force. In a major effort to retain our police workforce, and be able to recruit high quality personnel, we were successful in obtaining a pay increase for our security force. We believe that higher pay will help retain trained officers rather than seeing them depart for new opportunities created by higher security needs nationwide, and improve the candidate pool for prospective officers. As a result of the pay increases, the average salary and benefits for protection personnel increased 14 percent over the prior year.

CAPITAL INVESTMENTS

Investment in capital is crucial to the Mint's ability to meet commercial demand for coinage, sell numismatic products to the public, and protect facilities and assets. Proper capital planning and effective investment management is part of our efforts to become a world-class manufacturing organization.

We are transforming our operations through the implementation of Total Productive Manufacturing (TPM) concepts. A strategic approach to achieve our goal of becoming a model government agency that matches world-class business practices, TPM is a production philosophy that encourages continuous and rapid improvement through the use of employee involvement and clear measures of performance. TPM focuses on maintaining a safe and clean working environment, upgrading and standardizing equipment and processes, and employee involvement through training and team-based problem solving. As part of TPM, we are reviewing our operating procedures and processes as well as the entire supply chain configuration to determine the capital investments necessary for the Mint to become an efficient and effective world-class coin manufacturer.

During FY 2003, the Mint made significant strides toward becoming a Lean and Agile (L&A) manufacturing organization. Our accomplishments include:

- Conducted L&A training sessions at the Philadelphia, Denver, San Francisco, and West Point operations. Diversified groups of employees at each plant participated in L&A workshops, process and value stream mapping, brainstorming, and developing new plant and equipment layouts to maximize production efficiencies.

- Commenced implementation of new plant layouts in Philadelphia and Denver. Beginning in 2004, a new plant layout is scheduled to be implemented in San Francisco along with process and workflow improvements for the West Point plant.

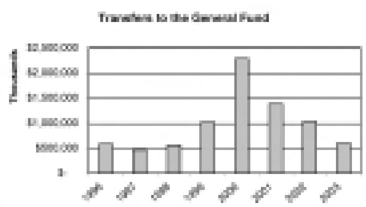
- Held Supply Chain Management workshops for material suppliers, Mint personnel, and FRB personnel to educate them on how the Mint will be ordering materials, converting materials to finished goods, controlling work-in-process and finished goods inventories, and supplying finished goods to distribution channels.

Other manufacturing capital investments included:

- Equipment replacements such as coin presses, to maintain our basic production capacity.

- Health and safety improvements, including replacing the motor control centers within the Philadelphia Mint, which brings this facility into compliance with the National Electric Code (NEC).

- Mint security was enhanced by capital investments to upgrade detection and surveillance capabilities, install access control devices at all locations and position physical barriers at all our field facilities.



- Mint information technology investments in FY 2003 included the implementation of an electronic records management (ERM) application and continued work on upgrading our enterprise resource planning (ERP) system.

TRANSFERS TO THE TREASURY GENERAL FUND

The Public Enterprise Fund (PEF) legislation permits the Mint to operate in a business-like manner allowing the Mint flexibility to adjust spending to adapt to ever changing economic and business conditions. The Mint transfers circulating results to the Treasury General Fund on a quarterly basis and numismatic profits on an annual basis. The amount of the deposit depends on cash flows and is determined by the level of Mint sales and projected future expenditures.

In FY 2003, the Mint contributed $600 million to the Treasury General Fund. This total consisted of $567 million from circulating operations (off-budget) and $33 million from numismatic operations (on-budget). In comparison, over $1 billion ($990 million from circulating operations and $40 million from numismatic operations) was transferred to the Treasury General Fund in FY 2002. The transfer from numismatic operations occurred in the first quarter of FY 2003 and reflects the numismatic profit for FY 2002. The amounts transferred to Treasury are directly related to the sales of Mint products. Weak circulating coin collections and numismatic sales generated smaller operating results and profits, respectively, and therefore smaller transfers to the General Fund in FY 2003 relative to FY 2002.

PERFORMANCE SECTION

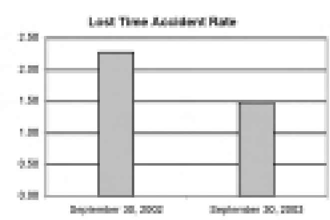
One of the most effective means of determining how well an organization is performing is through the use of performance measures. As described in Sections 4 and 5 of the Government Performance & Results Act (GPRA), agencies are to identify critical activities, devise pertinent performance measures, and report on these activities to the President and Congress.

The Mint's strategic plan focuses on adding value, ensuring integrity, and realizing world-class performance. To direct our efforts, the Mint devised key performance measures that cut across our organization. Tied to these performance measures are world-class targets and substantive initiatives to reach our goals. These measures are presented as bureau-wide strategic performance measures, which establish a single, critical set of measures to manage our operations effectively. In addition to being the critical measures used by management, many of these key measures can be broken out at the program level. Highlighted below are these measures:

UNITED STATES MINT KEY PERFORMANCE MEASURES

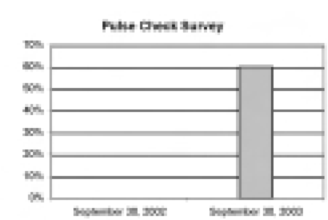
Measure	September 30, 2003	FY 2003 Target	September 30, 2002	Result
Lost Time Accident Rate	1.48	1.44	2.27	
Pulse Check Survey	60%	65%		
Cycle-Time	73	150	112	
Yield	85.93%	96.00%	85.86%	
Machine availability	56%	51%	52%	
Inventory Turnover	1.96	2.40	1.65	
SG&A as a percent of Revenue	15.30%	7.70%	11.30%	
Cost per 1000 coin equivalents	$9.96	$9.96	$8.69	
Customer Service Index	87%	70%		

LOST TIME ACCIDENT RATE



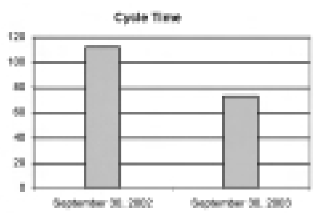
The Mint values its employees. Consistent with those values, the Mint strives to maintain a work environment that promotes the safety and well-being of employees on the job at all times. Lost Time Accidents (LTAs) are work-related accidents that lead to an employee missing at least one day of work. The LTA rate is the number of LTAs for every 200,000 hours worked. The LTA rate improved dramatically to 1.48 in FY 2003 from 2.27 in FY 2002, just missing the target rate of 1.44. Driven by heightened awareness on safety issues and process improvements at the plants, the LTA rate has decreased three years in a row. The Mint will continue to implement comprehensive, aggressive safety programs to search for, identify, and correct safety issues in all of our facilities in order to continue the positive trend and reach our ultimate goal of zero LTAs.

EMPLOYEE SATISFACTION (PULSE CHECK SURVEY)



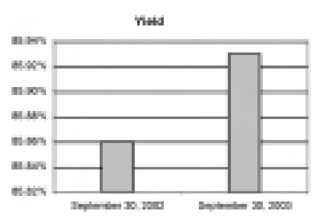
The Mint values its employees and strives to be an employer of choice where employees are motivated and enthusiastic about coming to work. The Employee Satisfaction Survey is a 14-question survey designed to assess the attitudes of the Mint's employees concerning their work environment. It is administered each quarter to 25 percent of the Mint's permanent workforce. Mint management reports to employees the findings from the employee satisfaction question on the survey, which captures the percentage of employees who are satisfied with their jobs. At the end of FY 2003, 60 percent of the employees who took part in the survey were satisfied with their jobs compared to a 65 percent industry benchmark. While individual responses are kept confidential, reports are created that allow analysis across broad categories for more detail. The Mint's management team has meticulously

reviewed these reports and is working to implement workplace improvements to address job satisfaction gaps identified by the survey. Prior year data is not available as the Mint began tracking this measure in FY 2003.



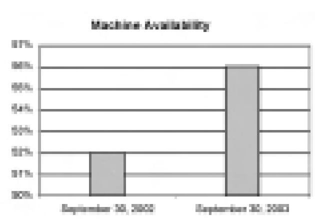
CYCLE TIME

The Mint wants to minimize the amount of time it takes to process raw materials into finished goods, eliminating non-value added steps from the processes and reducing the amount of raw material in inventory. The cycle time measure assesses the time it takes material to flow through the Mint's processes, from raw material to order fulfillment. Cycle time decreased to 73 days in September 2003 from 112 days in September 2002 and surpassed the target of 150 days. The improvement in the measure is attributable to the Mint's efforts to reduce raw materials inventory. The Mint eliminated feedstock inventory, reducing the amount of metal from 22 days supply in September 2002, to 0 days supply in September 2003. This was accomplished by only procuring fabricated coils and blanks from vendors and eliminating Mint-owned raw material for circulating coins. The number of days supply of coils/blanks inventory decreased to 24 days in September 2003 from 36 days in September 2002.



YIELD

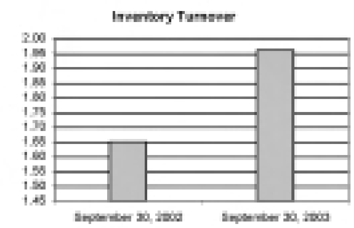
The Mint wants to minimize wasted material and transform as much of our materials into finished goods as is feasible. Yield measures the percentage of raw materials used that results in a finished product. Yield in FY 2003 increased slightly to 85.93 percent from 85.86 percent in the prior year. The major impediment to higher yield is a physical limitation in our production process for manufacturing blanks, as rectangular strips of metal are converted into circular metal blanks. The resulting scrap that is generated lowers the yield measure 10-15 percent depending on the mix of products we are producing. The Mint will continue to look into innovative solutions to improve yield. Improved machine maintenance and machine availability are expected to improve the yield of our raw material inputs as well.



MACHINE AVAILABILITY

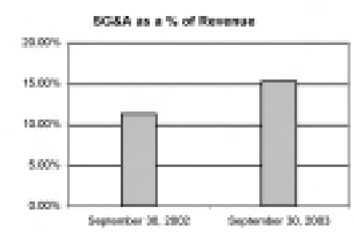
Machine availability measures the amount of time production equipment is available to produce finished goods (excluding scheduled downtime). We want our machines 'at-the-ready' at all times to manufacture coins as warranted by the prevalent demand. The Mint's equipment was available for production 56 percent of the time in FY 2003, which beat the target of 51 percent. Due to a combination of maintenance, staff planning, and older equipment, the Mint has had an historically low machine availability rate. Newer equipment, improved technology to schedule and monitor maintenance, and improved production management are enabling the Mint to have machines available more hours of the day. Total Productive Manufacturing initiatives described earlier will be focused on improving production scheduling and processes, positively impacting machine availability.

INVENTORY TURNOVER



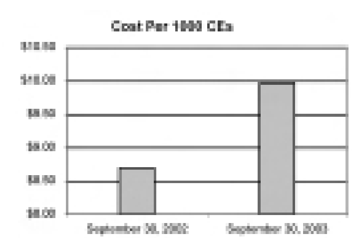
Inventory is expensive. It costs money to store inventory while it waits to be sold or converted to a finished good. The Mint seeks to minimize inventory of raw materials and finished goods to reduce the associated costs. Inventory turnover is a measure of how often, during the course of a year, the Mint sells and replaces inventory of materials and final products. Inventory turnover improved to 1.96 in FY 2003 from 1.65 in FY 2002. However, the Mint did not achieve the target of 2.40 turns per year. Inventory levels remain high and need further reductions. Despite reductions in inventories, weak demand for coins has slowed the improvement in inventory turnover. This measure will improve as revenues and collections increase. The Mint will continue to reduce inventory to achieve the target.

SG&A AS A PERCENT OF REVENUE (EXCLUDING BULLION REVENUE)

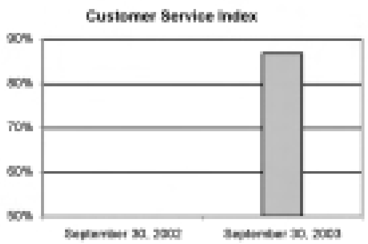


Sales, General & Administrative (SG&A) expenses are the overhead, marketing, and advertising costs of running the Mint. In a production-oriented, non-service intensive type business like the Mint, the focus is on minimizing SG&A costs where practicable to improve margins. The Mint cut overall SG&A costs to $179 million in FY 2003 from $182 million in FY 2002. Although the Mint reduced SG&A costs from the prior year, SG&A as a percent of revenue (excluding the bullion revenue) rose to 15.1 percent in FY 2003 from 11.2 percent in FY 2002 due to the decline in non-bullion revenues. The Mint is committed to achieving the target of 7.7 percent and has launched initiatives to reduce planned SG&A spending, including greater reliance on automation, and is working toward a one-report, one-system type of operation.

CONVERSION COST PER 1000 COIN EQUIVALENTS



The Mint's costs vary by product, and the Mint's product mix has been variable over time. Without a common unit of production, it is difficult to compare operating results from year to year. Coin equivalents convert the Mint's entire production output to a common denominator (standardized from the quarter). Production costs (less metal and fabrication) are then analyzed as a ratio of this standard production level, thus "conversion costs per 1000 coin equivalents." This allows comparison of performance over time by negating the distortions of the Mint's financial results due to changes in the product mix. Conversion costs per 1000 coin equivalents rose to $9.96 in FY 2003 from $8.69 in FY 2002, and matched the target of $9.96. The rise in the measure was anticipated and was caused by low levels of coin demand compared to recent history, which drove a reduction in coin production from the prior year. Generally, the cost per 1000 coin equivalents will rise when production declines because more fixed costs such as depreciation and overhead will be allocated to each unit produced.



CUSTOMER SERVICE INDEX

The Customer Service Index (CSI) is an indicator of quality of our product and service to the customer. Production of quality products and excellent customer service is paramount. The CSI contains three components: the percentage of orders without returns, the percentage of phone calls answered within one minute, and the percentage of orders fulfilled within seven days. The CSI was 87 percent in FY 2003, which easily beat the target of 70 percent. Although lower sales eased the load on our customer service providing units, we are confident we would have met or exceeded the target if sales had been higher. Prior year data is not available as the Mint began tracking this measure in FY 2003.

TOTAL LOSSES

The Mint performs its protection function by minimizing the vulnerability to theft or unauthorized access to critical assets. Total losses measures the dollar amount of losses incurred due to the realization of threats against the Mint. The Mint is still developing an appropriate methodology for this measure. The proposed methodology will be shared with our stakeholders in Treasury, OMB and Congress for approval. We plan to be able to report on the total losses measure for fiscal year 2004.

UNITED STATES MINT
FMFIA / FFMIA ANNUAL ASSURANCE STATEMENT
FOR FISCAL YEAR 2003

The United States Mint has evaluated its systems of management control for the fiscal year ending September 30, 2003, in accordance with procedures and standards prescribed by the Office of Management and Budget and the General Accounting Office.

The Mint provides reasonable assurance that the objectives of Section 2 of the FMFIA were achieved during fiscal year (FY) 2003.

For FY 2003, the Mint provides reasonable assurance that the objectives of Section 4 of the FMFIA were met. We took decisive action throughout FY 2003 to correct the single material weakness reported in our FY 2002 Annual Assurance Statement that the Mint's information systems controls needed improvement. Some of the corrective actions taken included (a) establishing a process for ongoing identification of potentially anomalous activity by development of high-risk indicators utilizing audit logging; (b) completing certification and accreditation on nine of the Mint's ten systems and major applications; (c) improving software system controls for change management across the Mint, including realignment of certain functional divisions (specifically, configuration management) to enhance segregation of duties; and (d) developing a defined configuration management plan for all systems under the Mint's Certification and Accreditation (C&A) framework and a revised system development life cycle (SDLC) to include a more comprehensive change management process.

For FY 2003, we have also addressed two second-tier issues reported in our FY 2002 Annual Assurance Statement. First, the Mint needed to improve its management control in the areas of vendor payments and the vendor master file, payroll processing, purchase card procedures, and temporary inventory transfers. Again, the Mint took decisive actions during FY 2003 to correct the weaknesses identified. The remaining second tier issue dealt with the need to establish clearly defined business processes and controls for our e-commerce system. Accordingly, we initiated and completed a comprehensive point-to-point business process integration review to map the key business process control points associated with our e-commerce system.

In all of its program activities, the Mint is actively engaged in developing and implementing management controls designed to support designated program results, consistent use of resources, elimination of program waste, fraud and mismanagement, adherence to laws and regulations, decrease improper or erroneous payments, and ensure reliable performance information. The Mint has also prepared the required Continuity of Operations (COOP) Plan. The Mint's performance information is reliable as most of it comes directly from the enterprise resource planning system.

The material weakness dealing with information systems as noted above was resolved during FY 2003. Therefore, the Mint provides reasonable assurance that it was in substantial compliance with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA) for FY 2003.

Henrietta Holsman Fore
Director
United States Mint

DEPARTMENT OF THE TREASURY
UNITED STATES MINT
STATEMENTS OF FINANCIAL POSITION (IN THOUSANDS)

	As of September 30, 2003		As of September 30, 2002	
ASSETS				
Current assets				
Fund balance with Treasury (Note 3)	$	293,279	$	301,067
Accounts receivable, net (Note 4)		10,315		17,956
Operating inventories, net (Note 5)		310,358		336,194
Advances and prepayments (Note 6)		19,029		4,677
Total current assets	$	632,981	$	659,894
Non-current assets				
Property, plant and equipment, net (Note 7)	$	300,128	$	313,501
Other assets (Note 8)		5,189		12,744
Total non-current assets	$	305,317	$	326,245
Total assets	**$**	**938,298**	**$**	**986,139**
LIABILITIES AND NET POSITION				
Current liabilities				
Accounts payable - Federal (Note 9)	$	1,773	$	2,985
Accounts payable - Non-Federal		38,493		27,900
Surcharges payable		2,402		8,396
Unearned revenue		6,020		1,747
Accrued salaries and benefits/unemployment insurance		7,960		4,120
Total current liabilities	$	56,648	$	45,148
Non-current liabilities				
Accounts payable - Federal (Note 9)	$	160,811	$	163,959
Accrued workers' compensation benefits		39,053		36,486
Accrued annual leave		8,992		8,960
Total non-current liabilities	$	208,856	$	209,405
Total liabilities	**$**	**265,504**	**$**	**254,553**
NET POSITION				
Fund balance	$	672,794	$	731,586
Total liabilities and net position	**$**	**938,298**	**$**	**986,139**
CUSTODIAL GOLD AND SILVER RESERVES				
United States' gold and silver reserves (Note 10)	$	10,364,687	$	10,364,687
Custodial liability to Treasury (Note 10)		10,364,687		10,364,687
Net custodial position	**$**	**0**	**$**	**0**

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE TREASURY
UNITED STATES MINT
STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION

(IN THOUSANDS)

	Years Ended September 30, 2003			2002
REVENUES AND FINANCING SOURCES				
Circulating coin collections (Note 11)	$	937,394	$	1,364,176
Sales to the public (numismatic sales)		471,330		447,756
Surcharges collected for beneficiary organizations (Note 12)		(1,020)		(7,741)
Imputed financing (Note 13)		11,143		8,854
Less: Additional employee benefit expenses (Note 13)		(11,143)		(8,854)
Protection Revenue		-		8
Total revenues and financing sources	**$**	**1,407,704**	**$**	**1,804,199**
COSTS AND EXPENSES				
Cost of goods sold (Note 14)	$	639,037	$	652,999
Selling, general and administrative expenses (Note 15)		178,861		182,042
Other costs and expenses (Note 16)		10,848		8,033
Protection costs		37,750		31,840
Total costs and expenses	**$**	**866,496**	**$**	**874,914**
Net results	**$**	**541,208**	**$**	**929,285**
Net position, beginning of year	**$**	**731,586**	**$**	**832,301**
Transfers to Treasury's General Fund		**(600,000)**		**(1,030,000)**
Net position, end of year	**$**	**672,794**	**$**	**731,586**

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE TREASURY
UNITED STATES MINT
STATEMENTS OF CASH FLOWS (IN THOUSANDS)

	Years Ended September 30, 2003		Years Ended September 30, 2002	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net results	$	541,208	$	929,285
Adjustments affecting operating cash flows:				
Decrease (Increase) in accounts receivable	$	7,641	$	(10,448)
Decrease (Increase) in other assets		19,039		124,047
Increase (Decrease) in accounts payable		6,233		4,285
Increase (Decrease) in other liabilities		4,718		(7,329)
Increase (Decrease) in accumulated depreciation and amortization		34,615		34,815
Total adjustments	$	72,246	$	145,370
Net cash provided by operating activities	$	613,454	$	1,074,655
CASH FLOWS FROM INVESTING ACTIVITIES:				
Increase (Decrease) in property, plant and equipment	$	(21,242)	$	(21,768)
Net cash used by investing activities	$	(21,242)	$	(21,768)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Funds transferred to Treasury	**$**	**(600,000)**	**$**	**(1,030,000)**
Net cash used by financing activities	**$**	**(600,000)**	**$**	**(1,030,000)**
Net cash provided (used) by operating, investing and financing activities	**$**	**(7,788)**	**$**	**22,887**
Fund balances with Treasury and cash at beginning of year	**$**	**301,067**	**$**	**278,180**
Fund balances with Treasury and cash at end of year	**$**	**293,279**	**$**	**301,067**

DEPARTMENT OF THE TREASURY
UNITED STATES MINT
NOTES TO THE FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2003

(Dollars are in thousands except Fine Troy Ounce information)

NOTE 1 REPORTING ENTITY

Established in 1792, the United States Mint (Mint) is a bureau of the Department of the Treasury (Treasury). The mission of the Mint is to manufacture coins for general circulation, to manufacture and sell numismatic products for the benefit of the federal government and various beneficiary organizations, and to protect certain federal assets in its custody. Numismatic products include medals, proof coins, uncirculated coins, platinum, gold, and silver bullion coins, and commemorative coins. Custodial assets consist of United States' gold and silver metal reserves. These custodial reserves are often referred to as "deep storage" and are reported in the custodial segment of the Statement of Financial Position.

Manufacture of numismatic products is financed principally through sales to the public. Manufacture of circulating coinage is financed through sales of coins at face value to the Federal Reserve System. Activities related to protection of federal custodial assets are funded by revenues and financing sources received by the Mint's Public Enterprise Fund (PEF).

Pursuant to Public Law 104-52, the PEF was established to account for all revenues and expenses related to production and sale of numismatic products and circulating coinage and protection activities. Expenses accounted for in this fund include the cost of metals used in circulating coin production, the cost of metals (gold, silver, platinum, cupro-nickel, magnesium and zinc) used in numismatic coin production, fabrication and transportation costs for metals used in circulating coinage and numismatic products, and costs of transporting circulating coinage between Mint production facilities and Federal Reserve Banks. Other costs/expenses accounted for in this fund include costs related to research and development and purchases of equipment, as well as capital improvements. P.L. 104-52 states that any amount in the PEF that is determined to be in excess of the amount required by the PEF shall be transferred to the Treasury.

Treasury's Bullion Fund (Bullion Fund) is used to account for United States gold and silver reserves. A separate Schedule of Custodial Gold and Silver Reserves has been prepared for that portion of the Treasury gold and silver reserves for which the Mint acts as custodian.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Mint has historically prepared its financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), based on accounting standards issued by the Financial Accounting Standards Board (FASB), the private-sector standards-setting body. In October 1999, the Federal Accounting Standards Advisory Board (FASAB) was designated by the American Institute of Certified Public Accountants (AICPA) as the standards-setting body for financial statements of federal government entities, with respect to the establishment of U.S. GAAP. FASAB has indicated, however, that financial statements prepared based upon accounting standards published by the FASB may also be regarded as in accordance with U.S. GAAP for those federal entities, such as the Mint, that have issued financial statements based upon FASB accounting standards in the past. Accordingly, consistent with historical reporting, the Mint's financial statements are presented in accordance with accounting standards promulgated by the FASB.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. All intra-Mint transactions and balances have been eliminated.

Revenues

Circulating Coinage: P.L. 104-52, establishing the PEF, provides for the sale of circulating coinage at face value to the Federal Reserve System. Revenue from circulating coinage is recognized when the product is shipped to the Federal Reserve Banks.

Numismatic Sales: Revenue is recognized when products are shipped to customers. Prices for numismatic products are based on the product cost plus a reasonable profit. Bullion products are priced based on the market price of the precious metals plus a market premium.

Unearned Revenues: These are amounts received from customers for which the numismatic products have not been shipped.

Fund Balance with Treasury

All cash is maintained at the Treasury.

Accounts Receivable

An allowance for uncollectible customer accounts receivable was established for all accounts that are older than 180 days. However, the Mint will continue collection action as specified by the Debt Collection Improvement Act of 1996.

Operating Inventories

Inventories of circulating coinage and most numismatic products are valued at the lower of cost or market value, with cost being determined by the average cost method. Absent historical cost records to determine acquisition cost of the gold and silver over the decades, the statutory rates of $42.2222 per fine troy ounce (FTO) of gold and $1.292929292 per FTO of silver are used. All work-in-process gold and silver inventories have been included in the Mint's financial statements.

Treasury allows the Mint to use its gold and silver as our working stock. This working stock is reported as "Operating inventories," with the exact amount offset in "Accounts payable – Federal." Generally, the Mint will replace its working stock when used in production with purchases of gold and silver on the open market. In those cases where the gold and silver is not replaced, the Mint reimburses Treasury the market value of the depleted gold and silver. That reimbursement would result in a reduction of the operating inventories, along with the Accounts payable – Federal at the statutory rates.

Advances and Prepayments

Payments in advance of the receipt of goods and services are recorded as advances and prepaid expenses at the time of prepayment and are expensed when related goods and services are received.

Property, Plant and Equipment

Property, plant and equipment are valued at cost less accumulated depreciation. The Mint's threshold for capitalizing new property, plant and equipment is $25,000 for single purchases and $500,000 for bulk purchases. Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets as follows:

ADP Software	2 to 10 years
Machinery and Equipment	7 to 20 years
Structures, Facilities and Leasehold Improvements	10 to 20 years

Depreciation of plant and equipment assets used jointly in numismatic and circulating coinage production is allocated to each activity based on usage percentages.

Major alterations and renovations are capitalized over the shorter of a 20-year period or the remaining useful life of the asset and depreciated on the straight-line method, while maintenance and repair costs are charged to expense as incurred.

Surcharges

Legislation authorizing commemorative programs often requires that the PEF remit a portion of the sales proceeds to beneficiary organizations. These amounts are defined as "surcharges." A surcharges payable is established for surcharges received but not yet paid to the beneficiary.

P.L. 104-208, Omnibus Consolidated Appropriations for Fiscal Year 1997 (the Act) became law on September 28, 1996 and changed the requirements of paying surcharges for commemorative coin programs. Prior to the Act, any surcharges received were to be restricted to the benefiting organization. However, the Act made the benefiting organizations full partners in bearing costs, risks and marketplace realities of selling coins. Benefiting organizations cannot receive surcharge payments unless all of the Mint's operating costs of the coin program are fully recovered. The Mint may make interim surcharge payments during a commemorative program if the benefiting organization meets the eligibility criteria in the Act, if the profitability of the program is determinable, and, if the Mint is assured it is not at risk of a loss. P.L. 108-15 contains a provision that beneficiary organizations have two years from the end of the program sales to meet the requirements of P.L. 104-208.

Financing Sources

Circulating coin collections derived from selling the circulating coins to the FRB is limited to the total cost of manufacturing those coins. The difference between the face value of circulating coins sold to the FRB and the total cost of manufacturing those coins is considered a Financing Source in accordance with Department and FASAB guidelines. The Mint's numismatic program treats all sales as earned revenue.

Shipping and Handling

Effective in FY 2003, the Mint reports shipping and handling cost as Cost of Goods Sold and not as part of Selling or General and Administrative expenses. The Mint believes that shipping and handling of circulating and numismatic products is more appropriately reported as part of the manufacturing process. General postage costs for handling administrative functions continue to be reported as part of the Mint's General and Administrative expenses.

Annual, Sick and Other Leave

Annual leave is accrued when earned and reduced as leave is taken. The balance in the accrued leave account is calculated using current pay rates. Sick leave and other types of non-vested leave are charged to operating costs as they are used.

Accrued Workers Compensation

A liability is recorded for estimated future payments to be made for workers compensation pursuant to the Federal Employees' Compensation Act (FECA). The liability is based on the net present value of estimated future payments. Estimated future payments to be made by the Treasury are calculated by the Department of Labor, which tracks and pays the claims and is subsequently reimbursed by the Treasury. A portion of Treasury's liability is allocated to the Mint based on prior claims payment experience.

Displays and Archives

The Mint has a display area at each of its facilities and maintains archives at its headquarters in Washington, D.C. The displays and archives include valuable coins and commemoratives minted domestically and internationally and other artifacts related to minting operations. Most of these items are not included in balances reported in these financial statements. Records are maintained of all coins, commemoratives and valuable artifacts. Physical inspections are performed to assure accountability.

Protection Costs

Virtually all of the Treasury's gold and silver reserves are held by the Mint, which is responsible for safeguarding the reserves in its custody. These costs are borne by the Mint, but are not directly related to the circulating or numismatic coining operations of the Mint. Organizationally, the Protection Strategic Business Unit is a separate line of business from coining operations.

Hedging

For FY 2003, the Mint is in compliance with Statement of Financial Accounting Standards No. 133, as amended, and follows the accounting guidelines for "cash flow" hedging. Cash flows (gains or losses) generated from the Mint's hedging activities are accounted for in the Statement of Operations during the accounting period in which the hedges are resolved. Gains and losses generated from hedging activities in FY 2003 are not material. During FY 2002, the Mint closed out existing hedge commitments. No new hedge commitments were entered into in FY 2003.

Reclassification

Certain FY 2002 balances have been reclassified to conform to the presentation in FY 2003.

NOTE 3 FUND BALANCE WITH TREASURY

Components of fund balance with Treasury at September 30 are as follows:

		2003		2002
Revolving Fund	$	293, 279	$	301,067
Total Fund Balance with Treasury	$	293,279	$	301,067

At September 30, 2003 and 2002, revolving fund balances included $2.40 million and $8.40 million, respectively, in restricted amounts for possible payment of surcharges to beneficiary organizations.

NOTE 4 ACCOUNTS RECEIVABLE

Components of accounts receivable at September 30 are as follows:

		2003		2002
Accounts Receivable, Federal	$	3,946	$	-
Accounts Receivable, Non-Federal		6,743		18,563
Less Allowance for Doubtful Accounts		(374)		(607)
Total Accounts Receivable	$	10,315	$	17,956

NOTE 5 OPERATING INVENTORIES

The components of operating inventories at September 30 are summarized below:

		2003		2002
Operating components	$	283, 873	$	313,509
Supplies		26,485		23,175
Allowance for program closeout		-		(490)
Total Operating Inventories	$	310,358	$	336,194

Operating components of inventories include direct materials, direct labor and overhead for work-in-process and finished goods inventories. Direct materials consist of metals, fabrication costs and transportation-in costs (costs related to the shipment of metals from fabricators and between Mint facilities). Direct labor consists of direct factory labor costs, and overhead consists of indirect labor costs, indirect materials (including dies), utilities and depreciation. Costs of precious metals (without fabrication and transportation) in the operating components at September 30 are as follows:

	2003	2002
Gold ($42.2222/FTO)	$ 119,939	$ 118,681
Silver ($1.292929292/FTO)	16,670	17,740
Platinum (Lower of Cost or Market)	37,861	40,483
Total Cost of Precious Metals in Operating Components	$ 174,470	$ 176,904

Gold and silver listed in the above chart is Treasury-owned gold and silver that the Mint uses as working stock. Although the gold and silver is Treasury-owned, it is listed as Mint "Operating inventories" with the exact amount offset in "Accounts payable – Federal". Platinum is a Mint asset that is not owned by Treasury.

NOTE 6 ADVANCES AND PREPAYMENTS

The components of advances and prepayments at September 30, are summarized below:

	2003	2002
Federal	$ 18,977	$ 4,587
Non Federal	52	90
Total Advances and Prepayment	$ 19,029	$ 4,677

Included in Advances-Federal is the amount of $2.23 million that the Mint pays into the Treasury Working Capital Fund (the Fund), a revolving fund that operates as an accounting entity.

Also included are the progress payments (advances) for equipment and building improvements under construction. The Mint initiated a Mint-wide security upgrade, which requires progress payments be made to the construction contractors. As of September 30, 2003, the cumulative balance for such payments is $9.90 million.

Advances-Non-Federal consists primarily of advances to employees for travel.

NOTE 7 PROPERTY, PLANT AND EQUIPMENT

Components of property, plant and equipment at September 30 are as follows:

	2003	2002
Land	$ 2,529	$ 2,529
Structures, Facilities and Leasehold Improvements	175,161	169,739
Computer Equipment	28,408	21,668
ADP Software	94,223	89,597
Machinery and Equipment	216,174	211,720
	$ 516,495	$ 495,253
Less Accumulated Depreciation and Amortization	(216,367)	(181,752)
Total Property, Plant and Equipment, Net	$ 300,128	$ 313,501

Mint facilities used to manufacture circulating coinage and numismatic products are owned by the Mint and located in San Francisco, California; Philadelphia, Pennsylvania; Denver, Colorado; and West Point, New York. In addition, the Mint owns the land and buildings at the Fort Knox Bullion Depository in Kentucky.

Depreciation and amortization expense charged to operations for FY 2003 and FY 2002 were $50.25 million and $44.20 million, respectively.

NOTE 8 OTHER ASSETS

Other Assets consists primarily of a pending bankruptcy claim the Mint has against a silver refining vendor for the not-returned Mint silver. The statutory value of this silver is $3.44 million.

NOTE 9 ACCOUNTS PAYABLE – FEDERAL

Gold and silver is Treasury-owned gold and silver that the Mint uses as working stock. Although the gold and silver is Treasury-owned, it is listed as Mint "Operating inventories" with the exact amount offset in "Accounts payable – Federal." Platinum is a Mint asset that is not owned by Treasury.

A summary of Accounts payable-Federal at September 30 are as follows:

		2003	2002
Current:			
	Funds to be transferred to others	$ 1,773	$ 2,985
		$ 1,773	$ 2,985
Non-Current:			
	Metal used as working stock inventory	$ 160,811	$ 163,959
		$ 160,811	$ 163,959
	Total Accounts Payable - Federal	$ 162,584	$ 166,944

The funds to be transferred to others resulted from the sale of metal used in Mint products and other amounts owed to federal entities, primarily the Treasury.

NOTE 10 CUSTODIAL GOLD AND SILVER RESERVES

The Mint is responsible for safeguarding much of the nation's precious metals and is the custodian of virtually all of the United States' gold and silver reserves. These resources are reported in the custodial segment of the Statement of Financial Position at the lower of cost or market value. Absent historical cost records to determine the acquisition cost of the gold and silver over the decades, statutory rates of $42.2222 per FTO of gold and $1.292929292 per FTO of silver are used to value the entire custodial reserves held by the Mint. An offsetting custodial liability is also reported for these assets. For purposes of comparison, the market value of these assets is disclosed below.

Amounts and values of custodial gold and silver in the custody of the Mint at September 30 are as follows:

		2003		2002
Gold:				
Inventories (FTO)		245,262,897		245,262,897
Market Value ($ per FTO)	$	388.00	$	323.70
Market Value ($ in thousands)	$	95,162,004	$	79,391,600
Statutory Value ($ in thousands)	$	10,355,539	$	10,355,539
Silver:				
Inventories (FTO)		7,075,171		7,075,171
Market Value ($ per FTO)	$	5.1150	$	4.5325
Market Value ($ in thousands)	$	36,190	$	32,068
Statutory Value ($ in thousands)	$	9,148	$	9,148
Total *Market* Value of Custodial Gold and Silver Reserves ($ in thousands)	$	95,198,194	$	79,423,668
Total *Statutory* Value of Custodial Gold and Silver Reserves ($ in thousands)	$	10,364,687	$	10,364,687

NOTE 11 CIRCULATING COIN COLLECTIONS

Circulating coin collections are receipts from the sale of circulating coins. These receipts are comprised of "Financing Sources" as well as "Revenue" as defined in Note 2.

Revenue is limited to all costs associated with the production, administration and distribution of Circulating coins, payment by the Mint for mutilated and uncurrent coins as well as all of the Mint's Protection costs. Protection costs are those costs associated with protecting Mint property, Mint personnel and Treasury assets for which the Mint is custodian. The financing source is all additional circulating coin collections over and above what has previously been defined as revenue.

The components of circulating coin collections as of September 30 are as follows:

		2003		2002
Revenue	$	400,345	$	468,170
Financing Sources		537,049		896,006
Total Circulating Coin Collections	$	937,394	$	1,364,176

NOTE 12 SURCHARGES COLLECTED

The following chart shows surcharges collected by product and beneficiary organization for FY 2003 and FY 2002. The surcharge recipients of programs subject to the provisions of P.L. 104-208 must meet certain requirements before the Mint can make surcharge payments. These requirements include raising matching funds and providing audited financial statements.

Commemorative Program	Beneficiary Organization	2003	2002	Sales Period (Calendar Year)
American Buffalo Coin	National Museum of the American Indian/Smithsonian	$ -	$ 38	2001
Capitol Visitor Center	Capitol Preservation Fund	-	545	2001-2002
US Military Academy Bicentennial	Association of Graduates, US Military Academy	276	3,639	2002-2003
2002 Winter Olympics	Salt Lake Organizing Committee for the Olympic Winter Games of 2002	74	3,518	2002
	U.S. Olympic Committee			
First Flight Commemorative Coins	First Flight Foundation	668	-	2003-2004
Yosemite National Park Centennial Medal	National Park Foundation	2	1	opened ended
Total Surcharges Collected		**$ 1,020**	**$ 7,741**	

NOTE 13 RETIREMENT PLANS AND OTHER POST-EMPLOYMENT COSTS (IMPUTED FINANCING)

At the end of FY 2003, four hundred thirty one (431) Mint employees participated in the Civil Service Retirement System (CSRS), to which the Mint contributes 25.0 percent of pay. On January 1, 1987, the Federal Employees' Retirement System (FERS) went into effect pursuant to P.L. 99-335. Most employees hired after December 31, 1983 are automatically covered by FERS and Social Security.

Employees hired prior to January 1, 1984 elected to join FERS or remain in CSRS.

A primary feature of FERS is that it offers a savings plan to which the Mint automatically contributes one percent of pay and matches any employee contributions up to an additional four percent of pay. FERS employees are allowed a maximum annual contribution of 13 percent of salary to a maximum of $12,000. Employees participating in FERS are covered by the Federal Insurance Contribution Act (FICA) for which the Mint contributes a matching amount to the Social Security Administration.

Although the Mint contributes a portion for pension benefits and makes the necessary payroll deductions, it is not responsible for administering either CSRS or FERS. Therefore, the Mint does not report CSRS or FERS assets, accumulated plan benefits or unfunded liabilities, if any, applicable to Mint employees. Reporting such amounts is the responsibility of the Office of Personnel Management (OPM). OPM has provided the Mint with certain cost factors that estimate the cost of providing the pension benefit to current employees. The cost factors of 25.0 percent of basic pay for CSRS-covered employees and 12.0 percent of basic pay for FERS-covered employees were in use for FY 2003. In FY 2002, the cost factors were 24.2 percent of basic pay for CSRS-covered employees and 11.5 percent of basic pay for FERS-covered employees.

The amounts that the Mint contributed to the retirement plans and social security as of September 30 are as follows:

		2003		2002
Social Security System	$	8,190	$	7,826
Civil Service Retirement System		2,106		2,623
Federal Employees' Retirement System				
(Retirement & Thrift Savings)		13,838		12,945
Total Retirement Plans and Other Post-employment Costs	$	24,134	$	23,394

The Mint is also recognizing its share of the future cost of post-retirement health benefits and life insurance for employees while they are still working with an offset classified as imputed financing. OPM continues to report the overall liability of the federal government and make direct recipient payments. OPM has also provided certain cost factors that estimate the true cost of providing the post-retirement benefit to current employees. The cost factor relating to health benefits is $3,766 and $3,473 per employee enrolled in the Federal Employees Health Benefits Program in FY 2003 and FY 2002, respectively. The cost factor relating to life insurance is two-one hundredths percent (.02%) of basic pay for employees enrolled in the Federal Employees Group Life Insurance Program for FY 2003 and FY 2002.

The amounts of imputed cost incurred by the Mint for FY 2003 and FY 2002 are as follows (before the offset for imputed financing):

		2003		2002
Health Benefits	$	7,208	$	5,885
Life Insurance		22		22

Pension Expense		3,913		2,947
Total Imputed Cost	$	11,143	$	8,854

NOTE 14 COST OF GOODS SOLD

Components of cost of goods sold as of September 30 are as follows:

		2003		2002
Finished Goods, Beginning	$	75,937	$	74,880
Cost of Goods Manufactured:				
Work-In-Process, Beginning		262,354		390,924
Direct Labor		11,868		11,703
Manufacturing Overhead		599,236		513,783
Work-In-Process, Ending		(250,190)		(262,354)
Total Cost of Goods Manufactured	$	623,268	$	654,056
Cost of Goods Available for Sale	$	699,205	$	728,936
Finished Goods, Ending		(60,168)		(75,937)
Total Cost of Goods Sold	$	639,037	$	652,999

NOTE 15 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Following are components of selling, general and administrative expenses as of September 30:

		2003		2002
Selling Expenses:				
Marketing	$	31,716	$	33,731
Advertising (including postage to mail brochures)		16,230		12,134
	$	47,946	$	45,865
General and Administrative:				
Labor/Benefits/Benefits to Former Personnel	$	52,403	$	43,255
Travel/Transportation		1,076		861
Rent/Communications/Utilities less Postage Mail Drop		16,611		17,806
Printing less Other Print/Report/Advertising		81		96
Services less Product Advertising		47,611		60,762
Supplies		2,183		1,628
Non-Capitalized Equipment		611		1,659
Insurance Claims/Interest & Dividends		9		8
Depreciation		10,330		10,102
	$	130,915	$	136,177
Total Selling, General and Administrative Expenses	$	178,861	$	182,042

NOTE 16 OTHER COSTS AND EXPENSES

These consist primarily of returns of mutilated or uncurrent coins to the Mint. The Mint reimburses the entity that sent in the coins for the face value of these coins if the coins are individually identifiable. If the coins have melted (as in a fire), the Mint reimburses the entity an amount based on the metal content of the melted mass.

NOTE 17 LEASE COMMITMENTS

The Mint leases space in two buildings in Washington, D.C. and office and warehouse space near other Mint facilities. Space in Denver and San Francisco is leased from the General Services Administration (GSA), which charges a fee approximating the commercial rental rates for similar properties. The remaining buildings are leased from private sources.

Total rental expense was $16.52 million and $17.92 million in FY 2003 and FY 2002, respectively.

Operating Leases
Schedule of Minimum Future Rental Payments (in thousands)

2004	$	16,343
2005		15,921
2006		15,563
2007		15,651
2008		15,741
After 2008		111,993
Total Minimum Future Rental Payments	$	191,212

NOTE 18 CONTINGENCIES

The Mint is subject to legal proceedings and claims which arise in the ordinary course of its business. Judgments, if any, resulting from pending litigation against the Mint generally would be satisfied from the Department of Treasury Judgment Fund. In the opinion of management, the ultimate resolution of these actions will not materially affect the Mint's financial position or the results of its operations.

The Mint has a pending bankruptcy claim for about $13 million against a silver refining vendor for United States Government silver that was not returned to the Mint. The bankrupt vendor presently asserts about $18 million in preference claims against the Mint for silver returned to the Mint within 90 days prior to the vendor's filing for bankruptcy protection.

The Mint also is the subject of a class complaint alleging employment discrimination at its Denver Mint

facility. If certified, the maximum liability for compensatory damages will be about $32 million.

NOTE 19 RELATED PARTIES

Related parties who were paid at least $100,000 as of September 30 are as follows:

		2003		2002
Office of Personnel Management	$	21,582	$	21,055
Department of Labor		13,745		11,683
United States Postal Service		10,622		8,846
Social Security Administration		8,190		7,826
Treasury Departmental Offices		2,978		3,899
General Services Administration		1,325		1,144
Internal Revenue Service		364		373
Department of Justice		301		-
Department of the Army		268		210
Department of Health and Human Services		226		181
Department of Agriculture		207		624
Department of Defense (DFAS)		124		-
General Accounting Office		-		250
Federal Law Enforcement Training Center		-		198
Department of Energy		-		136
Total Related Parties	$	59,932	$	56,425

The Mint is subject to management control by the Secretary of the Treasury.

The Mint shipped approximately $917 million in coins to the Federal Reserve Board in FY 2003. This amount represents a 31 percent decrease over FY 2002 shipments.

Numismatic orders, checks and credit card orders are processed by a commercial bank. Fees associated with these services are absorbed by the Treasury and are not reflected in the Mint's financial statements.

Urbach Kahn & Werlin LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Office of Inspector General
United States Department of the Treasury

Director
The United States Mint

We have audited the accompanying statements of financial position of the United States Mint (Mint), a bureau of the United States Department of the Treasury (Department), as of September 30, 2003 and 2002, and the related statements of operations and changes in net position, and cash flows for the fiscal years then ended. These financial statements are the responsibility of the Mint's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the United States' gold and silver reserves (Custodial Gold and Silver Reserves) for which the Mint serves as custodian. These reserves were audited by the United States Department of the Treasury, Office of Inspector General (OIG) whose report has been furnished to us, and our opinion, insofar as it relates to these reserves, is based solely on the report of the OIG.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the OIG, the financial statements referred to above, present fairly, in all material respects, the financial position of the Mint as of September 30, 2003 and 2002, and the results of its operations, the changes in its net position, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Discussion and Analysis and Supplemental Financial Information are presented for purposes of additional analysis and are not a required part of these basic financial statements. Such information, except for the Management Discussion and Analysis, on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements; and, in our opinion, the information is

fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued reports dated November 7, 2003, on our consideration of the Mint's internal control over financial reporting, and on our tests of its compliance with certain provisions of applicable laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and, in considering the results of the audit, those reports should be read in conjunction with this report.

Urbach Kahn & Werlin LLP

Washington, DC
November 7, 2003

UK Urbach Kahn &Werlin LLP
&W CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Office of Inspector General
United States Department of the Treasury

Director
The United States Mint

We have audited the financial statements of the United States Mint (Mint), a bureau of the United States Department of the Treasury (Department), as of and for the year ended September 30, 2003, and have issued our report thereon, dated November 7, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements.*

In planning and performing our audit, we considered the Mint's internal control over financial reporting by obtaining an understanding of the Mint's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Mint's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses or noncompliance may nevertheless occur and not be detected. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined above.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL, CONTINUED

In addition, with respect to internal control related to performance measures reported in Management's Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over reported performance measures, and accordingly, we do not provide an opinion on such controls.

We noted other matters involving the internal control and its operation, which we have reported to the management of the Mint in a separate letter, dated November 7, 2003.

This report is intended solely for the information and use of the Office of Inspector General, the management of the Mint, the Department, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Urbach Kahn & Werlin LLP

Washington, DC
November 7, 2003

**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE WITH LAWS AND REGULATIONS**

Office of Inspector General
United States Department of the Treasury

Director
The United States Mint

We have audited the financial statements of the United States Mint (Mint), a bureau of the United States Department of the Treasury (Department), as of and for the year ended September 30, 2003 and have issued our report thereon, dated November 7, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, applicable provisions of Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The management of the Mint is responsible for complying with laws and regulations applicable to the Mint. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Mint's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the Mint.

The results of our tests of compliance disclosed no instances of noncompliance with the laws and regulations discussed in the preceding paragraph, exclusive of FFMIA that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02.

We performed tests to determine whether the Mint's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Standard General Ledger at the transaction level.

The results of our tests disclosed no instances in which the Mint's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE WITH LAWS AND REGULATIONS, CONTINUED

This report is intended solely for the information and use of the Office of Inspector General, the management of the Mint and the Department of the Treasury, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Urbach Kahn & Werlin LLP

Washington, DC
November 7, 2003

SUPPLEMENTAL FINANCIAL INFORMATION

In this Supplemental Section of the Report, we provide additional information related to the financial condition of the U.S. Mint (Mint). Each section provides its own additional insight.

SUPPLEMENTAL INFORMATION PER PUBLIC LAW 106-445

The following supplemental schedules were prepared in compliance with the reporting requirement of Public Law 106-445 (Section 5134(e)(2) of title 31, United States Code, amended in FY 2000), which required the Mint to include in its annual report specific information regarding the costs and expenses for producing, marketing, and distributing circulating coinage – both in gross and on a per-unit basis – as well as gross revenue from the sales of each denomination.

The first two schedules provide the information detailing the costs and expenses for the production, marketing, and distribution of each denomination of circulating coins produced by the Mint during FY 2003 and FY 2002 as well as the gross circulating collections derived from the sales of each such denomination of coins. The second set of schedules provides the information for the per-unit cost of producing and distributing each denomination of such coins.

CIRCULATING COLLECTIONS AND OPERATING RESULTS (IN MILLIONS) FOR THE YEAR ENDED SEPTEMBER 30, 2003

	Penny	Nickel	Dime	Quarter	Half	Dollar	Mutilated & Other	Total
Collections	$64.3	$37.2	$188.4	$617.9	$4.5	$25.1	$0.0	$937.4
Cost of Goods Sold	61.2	26.2	37.6	113.8	0.8	4.3	0.0	243.9
Selling, General & Administrative	2.1	2.1	23.0	76.7	0.5	3.5	0.0	107.9
Other Costs and Expenses	0.0	0.0	0.0	0.0	0.0	0.0	10.8	10.8
Operating Results	$1.0	$8.9	$127.8	$427.4	$3.2	$17.3	($10.8)	$574.8

CIRCULATING COLLECTIONS AND OPERATING RESULTS (IN MILLIONS) FOR THE YEAR ENDED SEPTEMBER 30, 2002

	Penny	Nickel	Dime	Quarter	Half	Dollar	Mutilated & Other	Total
Collections	$75.2	$65.1	$263.3	$904.0	$4.4	$52.2	$0.0	$1,364.2
Cost of Goods Sold	64.9	40.2	49.8	147.3	0.6	3.2	0.0	306.0
Selling, General & Administrative	1.5	3.0	23.5	86.8	0.4	7.2	0.0	122.4
Other Costs and Expenses	0.0	0.0	0.0	0.0	0.0	0.0	8.0	8.0
Operating Results	$8.8	$21.9	$190.0	$669.9	$3.4	$41.8	($8.0)	$927.8

UNIT COST OF PRODUCING AND DISTRIBUTING COINS
FOR THE YEAR ENDED SEPTEMBER 30, 2003

	Penny	Nickel	Dime	Quarter	Half	Dollar
Cost of Goods Sold	$0.0093	$0.0346	$0.0197	$0.0452	$0.0902	$0.1694
General & Administrative	$0.0003	$0.0028	$0.0122	$0.0311	$0.0583	$0.1410
Distribution to FRB	$0.0002	$0.0004	$0.0002	$0.0008	$0.0007	$0.0017
Total Expenses	$0.0098	$0.0378	$0.0321	$0.0771	$0.1492	$0.3121

UNIT COST OF PRODUCING AND DISTRIBUTING COINS
FOR THE YEAR ENDED SEPTEMBER 30, 2002

	Penny	Nickel	Dime	Quarter	Half	Dollar
Cost of Goods Sold	$0.0085	$0.0306	$0.0187	$0.0400	$0.0664	$0.0607
General & Administrative	$0.0002	$0.0023	$0.0089	$0.0229	$0.0433	$0.1049
Distribution to FRB	$0.0002	$0.0003	$0.0002	$0.0008	$0.0013	$0.0011
Total Expenses	$0.0089	$0.0332	$0.0278	$0.0637	$0.1110	$0.1667

SUPPLEMENTAL RECONCILIATION OF FINANCIAL STATEMENTS TO BUDGETARY REPORTS

Public Law 102-390 requires that the Mint's annual financial statements include a reconciliation of the financial statements to the budget reports of the Fund. The following supplemental schedule reconciles the expenses from the Mint's Total Costs and Expenses on its Statement of Operations and Changes in Net Position to the SF-133, Report on Budget Execution and Budgetary Resources.

RECONCILIATION OF FINANCIAL STATEMENTS TO BUDGET REPORTS
FOR THE YEAR ENDED SEPTEMBER 30, 2003 (IN THOUSANDS)

Obligations Incurred per SF 133		$834,084
Expended Authority - Unpaid	($10,951)	
Change in Assets and Liabilities	43,363	
Total		32,412
Total Cost and Expenses per the Statement of Operations and Changes in Net Position		**$866,496**

RECONCILIATION OF FINANCIAL STATEMENTS TO BUDGET REPORTS
FOR THE YEAR ENDED SEPTEMBER 30, 2002 (IN THOUSANDS)

Obligations Incurred per SF 133		$ 737,820
Expended Authority - Unpaid	$ 3,044	
Change in Assets and Liabilities	134,050	
Total		137,094
Total Cost and Expenses per the Statement of Operations and Changes in Net Position		**$ 874,914**

REPORT OF THE OFFICE OF THE INSPECTOR GENERAL
THE DEPARTMENT OF THE TREASURY

To the Director of the United States Mint:

We have audited the accompanying Schedule of Custodial Gold and Silver Reserves (Custodial Schedule) of the United States Mint (U.S. Mint) as of September 30, 2003 and 2002. This report presents our unqualified opinion on this Custodial Schedule. Our audit disclosed no material weaknesses and no instances of reportable noncompliance with laws and regulations.

Management's Responsibilities

Management is responsible for:

- Preparing the Custodial Schedule in conformity with accounting principles generally accepted in the United States of America.
- Establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the benefits and related costs of internal control policies and procedures.
- Complying with laws and regulations applicable to the U.S. Mint's custodial responsibilities for the Gold and Silver Reserves.

Scope of Audits

We conducted our audits in accordance with the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and applicable provisions of the Office of Management and Budget (OMB) Bulletin No. 01-02, Audit Requirements for Federal Financial Statements. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the Custodial Schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Custodial Schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall custodial schedule presentation. Our responsibility is to express an opinion on the Custodial Schedule based on our audits. We believe that our audits provide a reasonable basis for our opinion.

In planning and conducting our audit of the Custodial Schedule, we considered internal control over financial reporting and compliance with laws and regulations. Specifically, we obtained an understanding of the design of the U.S. Mint's internal controls, determined whether these controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the Custodial Schedule and not to provide assurance on the internal control over financial reporting and compliance with laws and regulations. Consequently, we do not provide an opinion on such controls.

As part of obtaining reasonable assurance about whether the Custodial Schedule is free of material misstatement, we performed tests of the U.S. Mint's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of Custodial Schedule amounts. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the U.S. Mint. Providing an opinion on compliance with laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

Results of Audits

Opinion on the Custodial Schedule

In our opinion, the accompanying Custodial Schedule presents fairly, in all material respects, the balance of the United States' Gold and Silver Reserves in the custody of the U.S. Mint as of September 30, 2003 and 2002, in conformity with accounting principles generally accepted in the United States of America.

Consideration of Internal Control

The objectives of internal control are the following:

- Financial reporting: Transactions are properly recorded, processed, and summarized to permit the preparation of the Custodial Schedule in conformity with accounting principles generally accepted in the United States of America, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.
- Compliance with applicable laws and regulations: Transactions are executed in accordance with laws and regulations that could have a direct and material effect on the Custodial Schedule.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors, fraud, or noncompliance in amounts that would be material in relation to the Custodial Schedule being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. For those controls we tested, we found no material weaknesses in internal control over financial reporting and compliance with applicable laws and regulations.

Because of the limitations inherent in any internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that internal control may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Compliance with Laws and Regulations

Our test of compliance with selected provisions of laws and regulations disclosed no instances of noncompliance that are required to be reported in accordance with the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States or applicable OMB audit guidance. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

This report is intended solely for the information and use of the management of the U.S. Mint, and the U.S. Department of the Treasury, OMB, the Congress, and Urbach, Kahn & Werlin, LLP, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is available to the public as a matter of public record.

Your staff has reviewed our report, and has no comments. Should you or a member of your staff have any questions, please contact me at (202) 927-5768, or Louis King, Director, Information Technology Audits, at (202) 927-5774. We appreciate the cooperation and the courtesies extended to our staff.

William H. Pugh

William H. Pugh
Deputy Assistant Inspector General for Financial Management
and Information Technology Audits
October 10, 2003

DEPARTMENT OF THE TREASURY
UNITED STATES MINT
SCHEDULE OF CUSTODIAL GOLD AND SILVER RESERVES
AS OF SEPTEMBER 30, 2003 AND 2002 (IN THOUSANDS)

Custodial Gold and Silver Reserves	2003	2002
United States gold and silver reserves (Note 2)	$10,364,687	$10,364,687
Liability to Treasury (Note 2)	$10,364,687	$10,364,687
Net Gold and Silver Reserves Custodial Position	$ 0	$ 0

The accompanying notes are an integral part of this schedule

NOTES TO THE SCHEDULE OF CUSTODIAL GOLD AND SILVER RESERVES AS OF SEPTEMBER 30, 2003 AND 2002

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The United States Mint (U.S. Mint), established in 1792, is an integral part of the Department of the Treasury. The mission of the U.S. Mint is to manufacture coins for general circulation. In addition to manufacturing circulating coins, the U.S. Mint manufactures numismatic products, including medals, proof coins, uncirculated coins, bullion coins (gold, platinum, and silver), and commemorative coins. These manufacturing operations are reported in the manufacturing segment of the U.S. Mint's consolidated financial statements. The U.S. Mint is also the custodian of a significant portion of the United States' gold and silver reserves, which are presented in the reserves segment of the U.S. Mint's Statements of Financial Position. The U.S. Mint uses the term custodial to identify gold and silver reserves held for the U.S. Treasury. The custodial reserves are not assets of the U.S. Mint, but are assets of the U.S. Treasury.

The U.S. Mint's custodial activities, including the protection of the United States' gold and silver reserves, are funded by the U.S. Mint's Public Enterprise Fund (PEF).

B. Basis of Presentation

This Schedule has been prepared to report the gold and silver reserves custodial position of the U.S. Mint. The books and records of the U.S. Mint have served as the source of the information contained herein. The Schedule has been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and U.S. Mint accounting policies.

This Schedule includes all gold and silver classified by the U.S. Mint as "custodial reserves" as defined in Note 2. This Schedule does not include gold and silver withdrawn from the "custodial reserves" for use in the operations of the U.S. Mint's PEF. The U.S. Mint's PEF is authorized to use gold and silver from the custodial reserves to support its numismatic operations. This Schedule does not reflect any United States' gold and silver reported by the U.S. Mint in its operating inventory or any reserve amounts due to be replenished by the PEF, nor does it include gold held at Federal Reserve Banks.

Note 2. Gold and Silver Reserves

The gold and silver reserves reported in this Schedule are exclusive of the gold and silver reserves considered to be operating inventory in the Mint's financial records and of the Treasury gold held by the Federal Reserve Banks. The custodial gold and silver reserves included in this Schedule are primarily in bar form, but may occasionally be in coin or other form. The custodial reserves also include foreign gold coins that have been held by Treasury for many years.

The gold and silver reserves are reported in this Schedule at the lower of cost or market value. Absent historical records to determine the acquisition cost of the gold and silver over the decades, the reserves are valued at the rates stated in U.S. Code Title 31, Sections 5116 and 5117 (statutory rates) which are $42.2222 per Fine Troy Ounce (FTO) of gold and $1.292929292 per FTO of silver. An offsetting liability is also reported for these assets.

At September 30, 2003 and 2002, the market value of gold was $388.00 per FTO and $323.70 per FTO respectively. Gold inventories consisted of the following at September 30:

	FTO	Statutory Value	Market Value
2003	245,262,897.040	$10,355,539,091	$95,162,004,052
2002	245,262,897.040	$10,355,539,091	$79,391,599,772

At September 30, 2003 and 2002, the market value of silver was $5.1150 per FTO and $4.5325 per FTO respectively. Silver inventories consisted of the following at September 30:

	FTO	Statutory Value	Market Value
2003	7,075,171.14	$9,147,696	$36,189,500
2002	7,075,171.14	$9,147,696	$32,068,213

The combined gold and silver custodial reserves consisted of the following at September 30:

	Statutory Value	Market Value
2003	$10,364,686,787	$95,198,193,552
2002	$10,364,686,787	$79,423,667,985

The PEF is responsible for either replenishing the custodial reserves with purchases of newly mined gold or paying the Treasury General Fund for custodial reserves transferred to the PEF for numismatic operations. There were no such transfers during 2003 and 2002.

GLOSSARY OF TERMS

AMERICAN EAGLE PROGRAM

Gold, platinum, or silver coins issued in proof or uncirculated qualities. Gold and platinum coins are issued with one-tenth, one-quarter, one-half or one ounce precious metal content. Silver coins are issued with one ounce of silver metal content. The proof quality coins are considered numismatic products and are sold directly to consumers either as individual coins or in various combinations of sizes and metals. Uncirculated quality coins are considered investment-quality coins and are sold directly to a limited number of precious metal dealers.

CIRCULATING COINS

The penny, nickel, dime, quarter-dollar, half-dollar, and one-dollar coins used in daily commerce. The Federal Reserve System distributes circulating coins into the economy.

COMMEMORATIVE COIN PROGRAMS

Coins that Congress directs the Mint to produce and market based on legislation. These programs generally honor significant people (e.g., Dolley Madison), events (e.g., the Olympic Games), or things (e.g., the National Law Enforcement Officers Memorial). Commemorative coins are generally sold for a 12-month period or as defined in the legislation.

NUMISMATIC PRODUCTS

The coins and coin-related products produced by or for the Mint for sale to the public. These products are separate from the circulating coins sold to the Federal Reserve System.

PROOF QUALITY COINS

Coins that are struck multiple times with specially treated dies to produce a mirrored background, sharp relief, and a frosted image on the finished coin. Coins offered as numismatic products are produced in proof quality as well as uncirculated quality.

RECURRING OR ANNUAL COIN PROGRAMS

Proof and uncirculated quality sets of all circulating coins for a year that are specially packaged for collectors. The uncirculated set includes coins of each denomination produced at both the Denver and Philadelphia Mints. The annual and silver proof sets include one of each circulating coin and are produced only at the San Francisco Mint. The silver proof set includes a silver dime, quarter-dollar(s), and a half-dollar; the penny, nickel and dollar coins are their normal metal make-up.

UNCIRCULATED QUALITY COINS

Coins that are struck only once with regular coinage dies. Uncirculated coins have a satin finish versus the mirrored background and frosted image of the proof coins.